FINANCIAL TIMES

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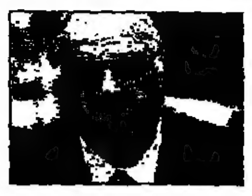
TUESDAY JUNE 30 1998

Kidnapping
How to reduce the risk and avoid the ransom
Page 12

Oil exporters
A virtual alliance to keep the markets steady
Page 4



German politics
Can Europe's heavyweight stay in power?
Page 17

Hong Kong survey
Recession spoils the birthday party
Separate section

WORLD NEWS

Europe agrees on blueprint for future trade relations with developing world

EU ministers agreed a blueprint for a new Lomé Convention, the trade and aid instrument which manages EU relations with 71 African, Caribbean and Pacific developing countries, to succeed the current agreement that expires in 2000. Page 5

Swiss union backs no-strike deal
Switzerland looks likely to preserve its record of more than 60 years of industrial peace after its most powerful trade union dropped its opposition to the renewal of a five-year no-strike agreement. Page 2

Netanyahu rejects election call
The Israeli prime minister, Benjamin Netanyahu, dismissed a call from President Ezer Weizman to test his peacemaking policies by holding an early general election.

New hope for Aids mothers
The World Aids Conference heard that 30,000 HIV-positive women in the developing world could benefit from a radical treatment costing as little as $50, which halves the risk of a mother transmitting Aids to her baby. Page 4

French mint strike extended
French mint workers voted to prolong a five-day-old strike that has halted production of new euro coins in the country. Page 2

German left defends millionaire
Germany's opposition Social Democrats dismissed suggestions that millionaire entrepreneur Jost Stollmann, nominated as their shadow economics minister, did not fit in with the left-leaning party. Page 2

War crimes suspect found hanged
Serb war crimes suspect Slavko Dokmanovic hanged himself at a Dutch detention centre while awaiting a verdict in his trial for the massacre of more than 200 hospital patients in eastern Croatia.

Cuban contracts sought
French and Spanish companies, backed by their governments, have positioned themselves to win major supply and investment contracts in Cuba to help modernise the transport and energy sectors. Page 5

Protester killed in East Timor
Indonesian security forces opened fire, killing at least one demonstrator, while European ambassadors were in the East Timorese town of Baucau as part of a fact-finding tour of the territory.

Romanian hero admits double past
Bishop Laszlo Toekes, whose opposition to the Ceausescu dictatorship sparked the 1989 revolution, acknowledged he collaborated with the former Securitate secret police. Page 2

High-tech Oxford catching rival
Analysis shows Oxford is catching up with Cambridge as Britain's leading centre for high-technology industries stimulated by university scientific research. Page 10

Chechens want UN membership
Chechnya, which is not internationally recognised as an independent state, has decided to apply for membership of the United Nations.

Turkish Cypriots to extend airport
Turkish-Cypriot leader Rauf Denktash said his administration would extend the use of an airport in the north of the divided island for military purposes.

Germany through to quarter-finals
Germany rallied from 1-0 down in the last 15 minutes to beat Mexico 2-1 and advance to the quarter-finals of the soccer World Cup. World Cup coverage, Page 14

BUSINESS NEWS

News Corp plans to offer 20% of Fox vehicle for film, TV and sport

News Corp, Rupert Murdoch's media group, said it would group its US film, television and sports assets into a single entity, Fox Group, and make a public offering of up to 20 per cent of the group, to include Fox film and TV interests and the Los Angeles Dodgers baseball team.

Mergers and acquisitions in the US so far this year amount in value to more than all of 1997, which was a record year. Securities Data Corporation says deals worth $931bn were announced in the first six months of 1998, compared with $926bn for all of 1997. Page 18

SKF, the largest manufacturer of rolling bearings, unveiled a SKr1.7bn ($212m) restructuring to improve margins by reducing stocks and closing factories, with a 10 per cent workforce reduction affecting some 4,000 jobs. Page 19; Observer, Page 17

Stena Line, the world's largest ferry operator, is seeking a legal ruling on next year's abolition of duty-free sales within the European Union, which its lawyers say could contravene EU tax jurisdiction provisions. Page 2

Matif, France's futures and options exchange, is discussing a link-up with counterparts in Italy, Belgium and Portugal following its alliance with Meff, the Spanish derivatives exchange. Page 19; The future of futures, Page 16

Telefónica of Spain will enter a competitive bid today to buy control of the Puerto Rico Telephone Company, for which GTE of the US has offered $375m. The Spanish group has 79 per cent of Puerto Rico's long-distance operator. Page 22

Thyssen Krupp Stahl, the German steel group, confirmed it would join bidding for a majority stake in Belgium's state-controlled Cockerill Sambre steel group. Page 24

Munich Re, Europe's largest reinsurance group, announced a DM3.3bn ($1.82bn) package of capital-raising measures to finance expansion and simplify its share structure as a prelude to foreign stock exchange listings. Page 24

Economic and monetary union will lead to pan-European pay levels and agreements, according to just over half of 200 European multinationals in a survey by Deutsche Bank and management consultants Towers Perrin. Page 3

Enso of Finland, which is merging with Stora of Sweden to create the world's largest pulp and paper group, is to acquire a 19.9 per cent stake in Advance Agro of Thailand for $80m. Page 24

Securitas of Sweden, the security services group, acquired Proteg of France and guarding operations of Germany's Raab Karcher in deals worth SKr3.3bn ($415m). Page 25

Singapore sharply revised its 1998 growth forecast for the second time this year, down to 0.5 to 1.5 per cent – against last year's 7.8 per cent – but introduced a S$2bn (US$1.2bn) stimulus package to combat recession. Page 6

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets.
Page 26

EU softens line on Serbs as fighting intensifies

By Guy Dinmore in Belgrade and Lionel Barber in Luxembourg

Serb security forces have mounted an operation to retake a coal mine in Serbia's southern province of Kosovo, provoking the fiercest fighting for weeks.

The EU foreign ministers, meeting in Luxembourg yesterday, toned down earlier threats of military action and made clear their support for US-led diplomacy to end the Serb crackdown.

Heavy fighting has erupted on the edge of the provincial capital, Pristina, at the Belacevac open cast mine, which was captured last week by rebels. Serb forces also attacked three villages in the area, causing civilian casualties, a local journalist said yesterday.

To increase pressure on Yugoslavia, ministers ordered a ban on flights by Yugoslav carriers. The EU has already ordered an arms embargo, visa ban, a freezing of assets and a ban on new investments in Serbia.

The Serbian media bitterly attacked Richard Holbrooke, the US envoy who made little progress towards a settlement last week despite four days of intense diplomacy.

Politika, the newspaper of Serbia's ruling Socialist party, said Mr Holbrooke had "disqualified himself as a serious negotiator" by meeting Kosovo Liberation Army (KLA) fighters and by issuing "contradictory statements" over US policy towards the militants.

In spite of the media onslaught, US diplomats pursued their efforts to contain the conflict. Chris Hill, the US ambassador to neighbouring Macedonia, met Mr Milosevic in Belgrade and flew to Pristina for talks with Ibrahim Rugova, leader of the main Kosovo Albanian party.

US diplomats fear that Mr Rugova, who is committed to a non-violent campaign for independence, no longer has the power to deliver a settlement that would be accepted by the KLA.

Serbian officials said yesterday that the latest security operation was intended to secure production at Belacevac, one of two open cast coal mines that feed two power stations next door. They said some "terrorists" had retreated to two nearby villages, where they were resisting police, while others were still in the mine.

Reporters were blocked by police from approaching the area but heard heavy shelling and saw smoke pouring from the nearby village of Ade. Hundreds of ethnic Albanians fled for safety. Armed Serb civilians, some in masks, also took part in the operation.

Diplomats believe the government's next objective is to relieve a garrison of police and around 100 Serb families in the central village of Kijevo, which is surrounded by rebels.

Pressure on Milosevic, Page 2

Clinton stresses Beijing's diplomatic role in Asia

President Bill Clinton predicted "more and more and more" US strategic co-operation with China and added that Japan was also keen to develop a security partnership with Asia's emerging giant. Speaking to students at Beijing university, he pointed to the growing importance that Washington attached to Beijing's diplomatic co-operation. Page 6
Picture: AP

Rand hits further record low

By Victor Mallet in Johannesburg

The South African rand, battered by speculators, fell to another record low yesterday but recovered after the South African Reserve Bank, the central bank, forced up local interest rates.

South African politicians, economists and business leaders are agreed that the rand's collapse is not justified by the performance of the country's economy or its corporations. Both are strong by comparison with the situation in some highly indebted Asian nations.

But the speculators have seized upon it as a vulnerable emerging market currency. And critics of the ruling African National Congress say South Africa would have weathered the storm better had it moved faster to implement policies favourable to investors.

In the morning the rand fell to R6.15 to the dollar – down from R5.96 on Friday and 21 per cent below its level five weeks ago when the slide began – before strengthening to R5.925 in London trading. Chris Stals, Reserve Bank governor, and Trevor Manuel, finance minister, avoided public comments on the crisis yesterday, but the central bank pushed up the repurchase rate – the benchmark rate for commercial bank lending – to 20.08 per cent from 18.31 per cent.

Two of the country's big banks quickly raised their prime lending rates by two percentage points, prompting fears of a further economic slowdown that South Africa can ill afford. Prime rates have been increased by four percentage points this month, unemployment remains well over 20 per cent and real economic growth is unlikely to be much above 1 per cent in 1998.

Currencies, Page 33

City tradition ends with chest of Flowery Pekoe

By Gary Mead in London

Visitors to Betty's tearooms in Yorkshire, England, will soon have an exclusive opportunity to sample the world's most expensive tea, sold yesterday for £555 ($921) a kilogram at the final London tea auction.

The 44kg chest of Ceylon Flowery Pekoe was knocked down for £24,430. Under normal circumstances it would have struggled to achieve £200. The successful bidder was Jonathan Wild, chairman and managing director of the family-owned tea and coffee retailer Taylors of Harrogate, which includes the five tearooms in the Betty's chain.

The auction ended a City institution that has endured for 319 years. The first recorded sales of auctioned tea in London – of three casks registered as containing "Dust of Thea" – were on March 11 1679. The City became the centre of the world's tea trade, and the auction became a weekly event 168 years ago.

Bidding for the chest – the final lot, on behalf of three tea-planter charities – began at £10 but soon reached £300; from then on it was a tightly fought contest between Mr Wild and John Leeder, commodities director of rival firm Twinings.

Chris Pinfold, director of tea buying and blending for Taylors, said the final auction was "a sad event, but the end has been coming for some time".

Private buyers will still meet in London to buy supplies direct from brokers. If they hanker for the cut and thrust of face-to-face auctions they will have to travel to Mombasa, Kenya. About 70 per cent of all the tea drunk in the UK is Kenyan.

The future of futures, Page 16
Observer, Page 17
Commodities, Page 34

Monsanto to pay $1.4bn for Cargill seed operations

By Nikki Tait in Chicago

Monsanto, the US life sciences group which has become one of the most aggressive players in agricultural biotechnology, is to buy the international seed operations of Cargill, the privately owned US company, for $1.4bn.

The deal is the latest in a wave of consolidation moves by Monsanto. Earlier this month it announced plans to merge with American Home Products, creating a broad-based life sciences company with annual sales of about $23bn, roughly three times Monsanto's current size.

The Cargill purchase is part of a trend by "life sciences" companies to marry their biotechnology and genetic engineering capabilities with established seed businesses. The Cargill operations cover research, production and sales in 51 countries in central and south America, Europe, Asia and Africa.

Cargill said the deal reflected the group's realisation that biotechnology was "completely reshaping" the seed industry. While its operations had a good distribution network and strong seed stock, they lacked leading biotechnology capabilities.

Monsanto said ownership of the Cargill network would make it quicker and easier for its biotechnology products to penetrate markets outside the US and Canada. It calculates that the acreage potential for genetically engineered seeds outside the two countries is roughly twice the potential within North America.

Monsanto is one of the world's leading companies in the development of genetically engineered crops, using genetic technology to make crops stronger, resistant to disease and higher-yielding. The use of genetic technology in agriculture is widely accepted in North America, but Monsanto and other companies have run into opposition from consumer groups in Europe concerned about the environmental impact.

Minneapolis-based Cargill has traditionally been strong in oil seeds and maize, although its seed operations also include wheat and hybrid rice. The businesses being sold – which do not include Cargill's seed operations in North America or its Cargill Agricultural Merchants unit in the UK – employ about 2,200 people.

Last month the two companies announced a joint venture to develop genetically enhanced food and feed products, linking Cargill's processing and distribution capabilities with Monsanto's gene technology.

WORLD MARKETS

STOCK MARKET INDICES		
New York:		
Dow Jones Ind Av	9031.38	(+87.44)
NASDAQ Composite	1890.37	(+20.84)
Europe and Far East		
CAC40	4248.24	(+32.54)
DAX	5015.13	(+44.71)
FTSE 100	5884.5	(+7.1)
Nikkei	15305.73	(+155.69)
US LUNCHTIME RATES		
Federal Funds	5.75%	(5.25%)
3-mth Treas Bills: Yld	4.996%	(4.996%)
Long Bond	106⅝	(106⅜)
Yield	5.643%	(5.636%)
OTHER RATES		
UK: 3-mo Interbank	7⅞%	(7⅞%)
UK: 10 yr Gilt	109.6203	(103.937)
France: 10 yr OAT	105.2	(105.32)
Germany: 10 yr Bund	108.91	(109.01)
Japan: 10 yr JGB	111.4	(111.7)
NORTH SEA OIL (Argus)		
Brent Dated	$13.23	(12.29)

GOLD		
New York Comex	$293.6	(293.7)
London	$294.65	(293.25)
EXCHANGE RATES		
Dollar		
New York		
£	1.6687	(1.66155)
DM	1.81375	(1.81)
FFr	6.0788	(6.068)
SFr	1.527	(1.527)
Y	141.825	(141.8)
London		
£	1.6653	(1.6632)
DM	1.8133	(1.8098)
FFr	6.075	(6.0665)
SFr	1.5259	(1.5223)
Y	141.6	(142.735)
Tokyo Close		Y 142.05
Sterling		
DM	3.0196	(3.0099)

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Chicago · Los Angeles · Tokyo · Hong Kong

9 770174 736128 27

CONTENTS

World News 2-8 UK News 10
Features 12,13 Comment & Analysis 16,17
Companies & Finance 19-27 World Stock Markets 38-44

Full contents and Lex: back page

WORLD NEWS

EUROPE

Markets fall despite Kremlin optimism

By John Thornhill in Moscow

The Russian government hopes to receive a big tranche of international financial assistance by the end of July to help stave off its short-term liquidity problems, according to Anatoly Chubais, Russia's chief negotiator.

Russia would then sign up to a new International Monetary Fund programme and would commit itself to pursuing longer-term structural and budgetary reforms, he said yesterday.

However, Mr Chubais's upbeat comments were not enough to quell unease in Russia's financial markets yesterday, with bond and equity prices falling heavily. The RTS index of leading stocks closed down 6.1 per cent, its lowest level since September 1996.

Yields on short-term government bonds also nudged above the refinancing rate, which was yesterday raised from 60 per cent to 80 per cent.

Philip Poole, head of east European research at ING Barings, the international investment bank, said the IMF appeared to be indulging in a game of brinkmanship with the government to ensure that it committed itself to the strongest possible package of reforms.

But he contended that this was an extremely risky game, given the present nervous sentiment towards all emerging markets, and could result in events running out of control.

"The IMF is pushing very hard, and I think there is a danger they could push them over the edge," he said. "Russia faces a short-term liquidity crunch and the IMF has to come up with real financial support, not just fine words."

After meeting the parliamentary budget committee yesterday, Mikhail Zadornov, the finance minister, said he was hopeful parliament would quickly adopt a package of new tax-raising laws, which form the core of the government's anti-crisis programme. He was also confident that a critical new tax code could be quickly passed.

"I see that the Duma [the lower house of parliament] is ready to work constructively and support the legislative initiatives of the government," he said.

However, some Communist party leaders, who are still smarting over the humiliation of being forced to accept Sergei Kiriyenko as prime minister, suggested they would give the government's measures a rougher ride when they are discussed tomorrow.

Gennady Seleznyov, the Duma's Communist speaker, insisted that parliament would still have to approve any additional loans from the IMF which exceeded this year's limits on foreign borrowings. He added that, in his view, a devaluation of at least 12 per cent was now inevitable, even if additional IMF support was forthcoming.

New pressure on Milosevic

By Lionel Barber in Luxembourg

The European Union yesterday pinned its hopes on a ceasefire leading to a political solution to end the escalating violence in the Serbian province of Kosovo.

EU foreign ministers toned down earlier threats of military action and made clear their support for US-led diplomacy to end the Serbian crackdown against the Albanian majority.

Robin Cook, the UK foreign secretary, said: "Our primary aim is to get real political talks going to end the violence on both sides."

Mr Cook said the EU and the US remained opposed to independence for Kosovo because it would destabilise former Yugoslavia and the entire Balkan region. "We support enhanced status and a very large degree of autonomy for Kosovo."

In a move to step up pressure on Slobodan Milosevic, the Yugoslav president, ministers ordered a ban on flights by Yugoslav carriers. The EU has already ordered an arms embargo, visa ban, a freezing of assets and a ban on new investments in Serbia.

Mr Cook said: "I can't think of any other sanctions in addition to the battery which we have in place." He also rejected suggestions that the EU was playing second fiddle to the Americans.

Klaus Kinkel, the German foreign minister, said it was vital to keep the pressure on Mr Milosevic while maintaining support for Ibrahim Rugova, the elected leader of Kosovo's ethnic majority.

Wolfgang Schüssel, foreign minister of Austria, which is about to take over the EU presidency from Britain, said: "Rugova is our interlocutor. We must not let him go in exchange for the KLA [Kosovo Liberation Army]."

Ministers agreed, too, to strengthen their diplomatic missions in Belgrade to increase the number of monitors and observers in the area, probably by around 16.

Meanwhile, the EU has shelved threats to cut off trade benefits to Croatia in response to criticism of the Zagreb government's programme for returning refugees from the civil war in former Yugoslavia.

Ministers held out the prospect of financial aid and pledged to take part in an international conference for reconstruction in Croatia, providing Zagreb sticks to its commitment on treating refugees fairly.

● A Serb war crimes suspect, Slavko Dokmanovic, hanged himself overnight while awaiting a verdict in his trial for the massacre of more than 200 hospital patients in Croatia, the United Nations tribunal for former Yugoslavia said yesterday, Reuters reports from The Hague.

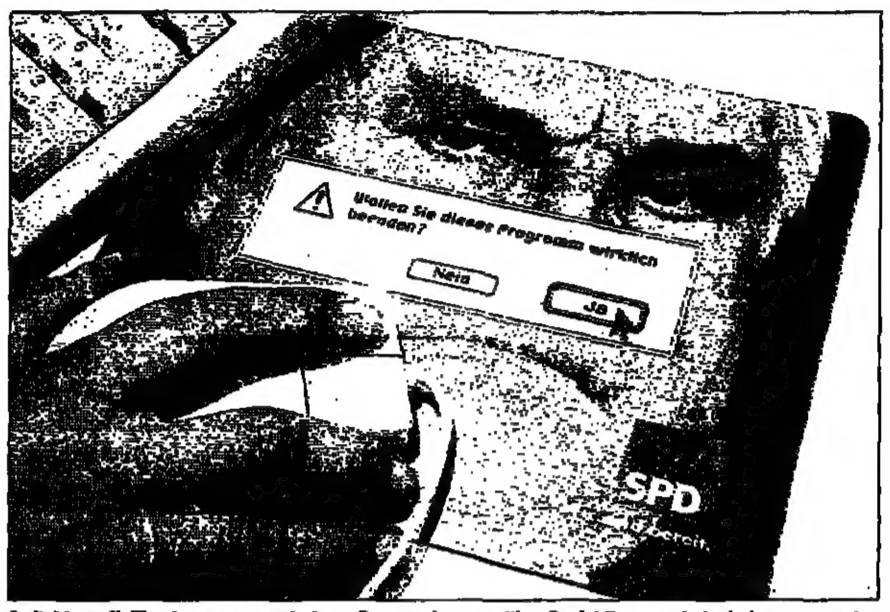
Dokmanovic had denied complicity in the slaughter in Vukovar. The killing was one of the most notorious incidents in the conflict that followed Croatia's declaration of independence from Yugoslavia.

SPD defends its millionaire

Germany's opposition Social Democrats brushed aside suggestions yesterday that a millionaire entrepreneur nominated as their shadow economics minister did not fit in with the left-leaning party, Reuters reports from Berlin.

Oskar Lafontaine, the SPD leader, defended Jost Stollmann against attacks from party members and their trade union allies. "The party is striving for modernisation and is open to the advice and co-operation of experts from outside," he told a party congress in Berlin.

Mr Stollmann, a computer entrepreneur, will head the economics ministry if, as polls predict, the SPD's Gerhard Schröder defeats Chancellor Helmut Kohl in the September 27 election.



Switching off: Election propaganda from Germany's opposition Social Democrats includes a computer mouse mat with a picture of Chancellor Helmut Kohl and the question: "Do you really want to quit this program?" The elephant and the mouse, Page 17 AP

Islamists on trial in Ankara

By John Barham in Ankara

Necmettin Erbakan, Turkey's banned Islamist leader, yesterday failed to attend a court hearing in Ankara for the first day of his trial on a charge of slandering the judiciary.

Mr Erbakan's lawyers said he was abroad attending a human rights conference, but did not give his whereabouts. He is not required to attend the trial and judges adjourned the next hearing to September.

Mr Erbakan is accused of slandering the constitutional court by referring to its decision last January to close his Islamist Welfare party as "legal murder".

The case is part of a wider military-led crackdown on the large Islamist movement that began 18 months ago and led to the collapse of Mr Erbakan's government last June. Mr Erbakan, 71, who was also banned from politics for five years, faces a jail term of 18 months if convicted.

Mr Erbakan also faces a series of other court cases, now that he has lost his parliamentary immunity from prosecution.

His exclusion from politics has thrown the Islamist movement into disarray. Welfare MPs have founded the Virtue party and chosen a figurehead leader, allowing Mr Erbakan to continue running the party, the largest in parliament.

However, commentators say the new party is beginning to splinter as younger politicians battle to seize control from the older generation.

Recep Erdogan, the 44-year-old Islamist mayor of Istanbul, was sentenced in May to 10 months in jail for "spreading hatred" in a speech he made last year. Mr Erdogan is appealing against the sentence, which if upheld would prevent him from holding public office.

Prosecutors have also moved against Islamist businesses. Erol Yarar, chairman of an Islamist business association, went on trial yesterday at a state security court charged with "provoking hatred among the people" in a speech last year criticising restrictions on religious education.

Swiss to renew no-strike 'treaty'

By William Hall in Bern

Switzerland looks likely to preserve its record of more than 60 years of industrial relations peace after its most powerful trade union dropped its opposition to the renewal of a five-year no-strike agreement yesterday.

The SMUV, which represents workers in the machinery industry, had demanded a reduction in the average working week from 40 to 36 hours as a condition for its support for the renewal of the "peace in labour relations agreement".

However, union members overruled their leaders, and the SMUV yesterday fell into line with five less militant unions and backed the 13th revision of a strike-free labour treaty, which will run until July 2003.

The SMUV was one of the architects of the 1937 agreement with the association of engineering employers (ASM) which is regarded as one of the pillars of the Swiss system of social partnership. The treaty, which has always been renewed by all the unions concerned, effectively ruled out strikes as a collective bargaining weapon.

Although the agreement covers only 130,000 employees in the metal and machinery industries, it is used as a benchmark for similar agreements for resolving disputes in other branches of Swiss business.

Swiss labour costs are among the highest in the world and the country's strike-free record and heavy investment in training help maintain the competitive edge of its export industries.

$1bn for Turkish petrol sell-off

By John Barham

Turkey staged its biggest privatisation yesterday when a little-known local group offered $1.16bn, double the expected price, for 51 per cent of Petrol Ofisi, the nation's leading chain of petrol stations.

The alliance of Orteks, a textile company, and Akmaya, a property developer, outbid some of Turkey's most powerful conglomerates in an auction that was broadcast live on national television.

Hayyam Garipoglu, Orteks's owner, said: "I was not expecting these numbers. We were expecting $750m." Petrol Ofisi, which is already listed on the Istanbul Stock Exchange, had a market capitalisation of $1.75bn.

Mr Garipoglu said he would raise financing from unnamed international backers. Orteks and Akmaya must pay half the price in cash on signing the purchase contract. However, the sale is still subject to final approval from the government's High Board of Privatisation.

The successful privatisation of Petrol Ofisi should clear the way for the sale later this year of Turkish Airlines, the Tupras oil refinery and Turk Telekom, the state-owned telephone company.

The government expects to raise at least $9bn from privatisations this year, more than double the amount raised since privatisation began in 1985.

The government also announced that it had reached agreement with the International Monetary Fund for a staff-monitored programme in which the IMF will monitor compliance with an agreed series of economic targets.

However, the agreement does not include a loan for Turkey, whose last standby programme with the IMF unravelled in 1995.

Gunes Taner, treasury minister, said the 18-month agreement would boost confidence in government economic policy, lowering its high cost of funds on local and international markets. He said this would help reduce inflation of 79.9 per cent to 50 per cent by December and 20 per cent by the end of 1999.

Petrol Is, the powerful oil workers' union, said the sale of Petrol Ofisi could not be completed until the courts had ruled on its demand to block the privatisation. However, Mr Garipoglu, who paid $103.5m in 1995 for the first state bank to be privatised, has since increased employment at Sumerbank and promises not to close any Petrol Ofisi outlets.

Before the sale, Ugur Bayar, chairman of the Privatisation Administration, said he believed the 10 local groups that entered the auction would negotiate alliances with international operators to help run Petrol Ofisi.

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NEWS DIGEST

PRODUCING THE EURO

French workers to extend coin-minting strike

French mint workers voted yesterday to prolong a five-day strike that has halted production of new euro coins in the country.

Workers at the mint's coin factory at Pessac in south-western France have been on strike since June 24 in a dispute over the number of jobs needed to produce the European single currency, which comes into circulation in 2002.

The factory just outside Bordeaux started production of 12m euro coins a day in May, making France the first of 11 participating nations to stamp an actual coin. A total of 7.6bn will be struck at Pessac over the next three years, using 30,000 tonnes of metal.

Throughout the euro zone, 70bn coins are expected to be produced by the end of 2001.

Pessac has been the sole plant responsible for minting French franc coins since 1973 and will be the only French plant involved in euro coinage production.

When the new euro coins are introduced in 2002, 17bn old French francs will be withdrawn from circulation in a matter of months – 41,000 tonnes of metal. **Reuters, Bordeaux**

Song and dance, but big decisions still awaited. Page 3

CEAUŞESCU'S OPPONENT

Bishop aided Securitate

The clergyman whose opposition to Nicolae Ceauşescu sparked the 1989 revolution against Romania's Communist dictator acknowledged yesterday that he had collaborated with Ceauşescu's feared secret police.

Laszio Toekes, an ethnic Hungarian bishop of the Reformed Church, said in a statement he had been forced to inform for the Securitate secret police after years of harassment. He called himself "a victim of the Securitate".

Although about one-quarter of the adult population is believed to have collaborated with the Securitate, Mr Toekes's revelation was surprising, considering the key role that he played in bringing down Ceauşescu and communism.

President Emil Constantinescu met the Supreme Defence Council yesterday and ordered intelligence officials to investigate whether leading dignitaries, including the prime, foreign and defence ministers, were also collaborators, his office said.

The order was part of a legal "moral purification" of Romanian society, his office said in a statement. **AP, Bucharest**

ESTONIAN BANK

Bankruptcy procedures begin

Estonia's central bank has started bankruptcy procedures against Maapank, the Baltic country's sixth largest bank, whose shareholders recently voted for its liquidation.

The central bank's decision frustrates government efforts to liquidate Maapank deposits with a supplementary budget, financed by a Ekr540m ($38m) bond issue.

"We see that there is no money in Maapank to pay all the depositors, and we think that this is the best and clearest way to solve all the problems," a spokesman for Eesti Pank, the central bank, said yesterday.

Maapank management opted for voluntary liquidation on June 9, after it failed to meet central bank capital requirements. In a scathing indictment of the rural bank's banking methods, its new management said government deposits had kept the bank afloat for six months. **Matej Vipotnik**

SERBIAN REFORMER

Minister quits to head Zastava

Milan Beko, one of the few reformers left in the Serbian government, said yesterday he would step down this week as minister without portfolio to head Zastava, the state-owned industrial group that is close to collapse.

Mr Beko described Zastava and its nominal 35,000-strong workforce, much of it unemployed, as a "social bomb". He said he was offered the chance to remain in the government but did not want to follow the example of other ministers and hold a top position in industry at the same time.

Mr Beko, minister for privatisation until a reshuffle in April, said he would seek to restructure Zastava and find an international partner for its car plant in Kragujevac. Peugeot has expressed interest. **Guy Dinmore, Belgrade**

CHARLES DE GAULLE AIRPORT

Noisy jets to be phased out

The French government, appeasing residents upset at the building of two more runways, set a timetable yesterday to phase out noisier jetliners at Charles de Gaulle airport in Paris by 2002.

Beginning this year, airlines at the airport north of the capital must reduce noise from its so-called "Chapter 2" jets by 15 per cent from last year, followed by 20 per cent each year to the end of 2001, the transport minister, Jean-Claude Gayssot, announced.

Chapter 2 jets include older models of Boeing 747s, 737s, 727s and Russian Ilyushins and Tupolevs.

The regulation affects about 12 per cent of the jet traffic that emitted 37 per cent of the jet noise at Charles de Gaulle and was responsible for 85 per cent of residents' noise complaints, the transport ministry said. **AP, Paris**

Ferry group challenges EU duty-free sales ban

By Tim Burt in Stockholm

Stena Line, the world's largest ferry operator, is seeking a legal ruling on next year's abolition of duty-free sales within the European Union.

Lawyers acting for the Swedish group – which relies on duty-free sales for almost 30 per cent of its SKr9.75bn ($1.23bn) annual revenues – have told it that abolition could contravene provisions in the EU's Treaty of Rome concerning tax jurisdiction. They say the treaty prevents the expansion of the EU's taxation area to include international waters or territorial waters of non-EU states.

"Our advice has been that we could be able to continue duty-free sales in international waters," said Bo Lerenius, chief executive of Stena Line and one of the most vociferous opponents of the abolition.

Mr Lerenius, who is standing down as chief executive in August, said the company had asked the Swedish government to clarify its position but had received no reply. "The only conclusion we can draw is that ministers don't really have an answer to the question of duty-free sales in international waters," he added.

Stena's lawyers have urged Sweden's board of taxation to seek a preliminary ruling from the European Court of Justice in Luxembourg on the issue of international waters and also whether duties would apply to ships registered outside the EU.

The move marks the latest stage of a campaign, pioneered by Scandinavian ferry operators, airlines and tour companies, to exploit legal loopholes either to maintain duty-free sales or offer passengers goods – mainly alcohol and tobacco – taxed at lower rates.

Scandinavian Seaways, which operates routes between Sweden and the UK, has decided to reroute its ferries via the Norwegian port of Kristiansand. As Norway remains outside the EU, passengers would still be eligible for tax-free products.

Another operator, Viking Line of Finland, is planning to divert Helsinki-Stockholm traffic via Aland, the Baltic archipelago that enjoys tax-free status within the EU.

Premiair, the Copenhagen-based charter airline, is considering selling duty-paid alcohol and tobacco products at the lower Spanish and Greek rates of tax.

هكذا من الاصل

Fixed exchange rates have arrived at Dutch bank

Living with the euro

By George Graham, Banking Editor

The age of the euro has come early to the Netherlands. Six months before the European Union's new currency comes into existence, travellers changing euro-zone banknotes into guilders may already be benefiting from fixed exchange rates.

The change has been spearheaded by Grenswisselkantoren (GWK), the bureaux de change bank owned by the Fortis banking and insurance group. Instead of making a profit on the exchange rates it uses, GWK has broken ranks with the rest of the banking industry by adopting the fixed bilateral exchange rates agreed by governments at the EU summit in May.

The service is still not free: GWK is charging a commission of 3¾ per cent on transactions up to Fl 5,000 ($2,470) and 2¼ per cent on larger exchanges. Nevertheless, for eight out of the 11 EU currencies that will take part in monetary union, that works out cheaper for the customer.

"If the client gives us back foreign currency after a holiday, he will get the same rate as when he bought it," said Aad van der Waal, general manager of GWK, which operates bureaux de change at railway stations, border crossings and airports.

"We accept that the rates are now fixed, so we are now asking for a transaction fee instead of a combination of the exchange rate and a fee."

In a way, the move is a perfectly logical consequence of the fixing of bilateral exchange rates announced in May. Indeed, from next January it will be obligatory.

The euro regulations oblige banks to use only the official exchange rate for conversions between euro-zone currencies.

According to the expert group gathered by the European Commission to report on bank charges, "the implication is that, if there are any charges for conversion, they should be separately identified, and not hidden in a 'spread'."

What is interesting, however, is the reaction of rival banks. "We know it's coming, but for the moment no decisions have been taken. We are just thinking about it," said a representative of ING Bank, one of the big three Dutch banks.

"We are studying further changes. It's a difficult issue," said a representative of ABN-Amro, another large bank.

Bankers in other countries say GWK's move has caused tremendous agitation.

At stake is not just the profits from charging wide exchange rate spreads when changing banknotes – though several bankers expressed private astonishment that GWK should so blithely abandon one of its main sources of revenue six months before it has to.

More broadly, the issue hints at the worries European banks face when the euro's introduction lifts the veil on a range of charges levied on customers for cross-border transactions.

One of the most sensitive areas is credit cards. When a French cardholder, for example, uses a credit card to pay in Germany, part of the processing charge is hidden within the exchange rates used to convert the amount.

From next January, however, card companies will have to use the official exchange rates. Any additional charge for cross-border payments will have to be identified explicitly on statements.

Ask your bank what exactly it plans to do about this, however, and you are unlikely to get a clear response. Most are still struggling to work out whether their customers will swallow an explicit cross-border charge.

Banks have been arguing for months with the European Commission and consumer groups about the issue of charging for euro conversions.

After a round-table meeting in Brussels this year, the Commission published a recommended standard of good practice which, to the relief of the banks, will not have the force of law.

The recommendation is that banks should not charge for "compulsory" conversions, such as converting accounts from national currency units to the euro during the transition period from 1999 to 2001, or for exchanging "household amounts" of national banknotes and coins for euros in 2002.

Slightly more controversially, the Commission has made it clear that it considers EU law to require no discrimination in fees and charges between payments denominated in euros and those denominated in national currencies.

For GWK, being in the vanguard on euro exchange rates is scant consolation for the damage the single currency will do to its business.

Euro-zone currencies account for about 80 per cent of the bank's foreign exchange income, which in turn makes up about 60 per cent of its total income.

Two months ago, the bank bit the euro bullet and announced plans to lay off half of its 1,000 workforce. It expects to close most of its 26 exchange bureaux along the borders with Belgium and Germany by 2002, focusing instead on its offices in railway stations.

Song and dance as central bank is launched – but big decisions are still awaited

ECB watch

Inflation targeting and banknote printing are among issues yet to be settled, reports **Wolfgang Münchau**

The European Central Bank will be ceremonially launched today with toasts from top European politicians and central bankers and with performances from a Dutch choir and Irish dancers.

But the elegant public festivities at Frankfurt's Alte Oper will contrast starkly with the frantic pace inside the ECB's headquarters just a few hundred yards down the road.

The 400 staff have exactly six months to get ready for the day when 11 national currencies will be replaced by the euro, the single European currency. Insiders describe the atmosphere as a mix of excitement and exasperation. Some preparations are behind schedule. Holidays have been postponed.

One tired-looking monetary official said: "I have never seen anything like this. Everybody here works all the time. I have cancelled almost all of my outside engagements."

The ECB's predecessor, the European Monetary Institute (Emi), has had the job of starting preparations and setting out policy options for the bank.

But not all is going according to plan. An example is the choice of monetary policy instrument, the single most important decision the ECB must take in the next six months.

In theory, the bank's governing council should confront a straight choice between the two options recommended by the Emi: inflation targeting or monetary targeting. Under strong pressure from Germany, the ECB is inclined to favour monetary targeting.

Unfortunately, it does not yet have reliable euro-zone monetary statistics for this strategy to work. The aggregation of national monetary data into a single set of European statistics has turned out to be surprisingly complicated.

Germany, for example, has been relying on M3, a measure of broad money. But in France, new savings schemes have rendered M3 almost obsolete. Italy does not even publish M3 data.

Insiders say it is a race against time. But even if the data were reliable, monetary targeting could still run up against the problem that certain kinds of change can transform the nature of economic relationships.

Time-honoured "laws", such as the link between money supply and inflation, may no longer hold under the new regime of economic and monetary union.

Leading international economists have therefore urged the ECB to opt for inflation targeting, seen as a more modern approach. Yet inflation targeting also faces the same statistics problem. It depends heavily on the quality of input data and the accuracy of econometric forecasting models. Uncertainty is bound to prevail on both points.

The ECB will therefore not be in a position to rely purely on either approach. Wim Duisenberg, the ECB's president, has indicated that the ECB will use monetary targeting as its main policy plank, supported by a supplementary inflation target.

But there is no guarantee that the combination of two bad policies will yield a good policy.

A further area that has turned out to be more difficult than previously imagined is the question of banknote security. The recently reported "loss" of a security hologram on an Air France flight from Paris to Munich was an embarrassment for the ECB. The incident is still under investigation by French and German police, but sources say the probe is going nowhere.

The Federation of German criminal investigators (BDK) has warned that the introduction of new banknotes, scheduled to take place in the first half of 2002, will open the floodgates to banknote-related crimes, including forgeries and fraud.

One problem is the rule that each country can print its own set of notes. Holger Bernsee, president of the BDK, warns that euro banknotes may not be identical throughout the euro-zone.

"You are bound to get a situation where people reject banknotes as forgeries, even though these are legally printed notes," he said.

The ECB is in charge of co-ordinating banknote security, while national finance ministries are responsible for the minting of coins. Despite the relatively long delay before the introduction of euro-notes and coins, the authorities are up against a tight deadline.

In France, the minting of coins has already started amid teething problems. The printing of euro banknotes is due to start by the end of the year.

There is no sense of panic yet, but the schedule for the next six months allows little room for slippage. After the smooth technical progress so far, one should not be surprised to find that Emu may soon hit some obstacles.

Economic indicators for euro-11 countries

	Apr 1998	Mar 98	Feb 98	Jan 98	Dec 97	Nov 97	1997	1996
Inflation (annual % chg)†	1.4*	1.2	1.2	1.1	1.5**	1.6**	1.6**	2.2**
Unemployment rate, %	11.3	11.3	11.4	11.4	11.5	11.6	11.6	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	63.1**	58.1	65.6	65.5	757.4	667.7
Imports	n/a	n/a	58.0**	57.5	57.6	57.4	667.0	594.2
Trade balance	n/a	n/a	5.1**	8.6	8.3	8.5	90.4	73.5
			Dec-Feb/ Sep-Nov	Nov-Jan/ Aug-Oct	Oct-Dec/ Jul-Sep	Sep-Nov/ Jun-Aug		
Industrial production, % (3 mo over previous 3 mo)	n/a	1.4	1.2	1.1	1.0	1.1	4.2††	−0.2††
GDP growth, %	Q1 1998	Q4 97	Q3 97	Q2 97			1997/96	1996/95
(over same quarter last yr)	3.2	3.0	2.7	2.8			2.5	1.6

* provisional ** estimated † estimated due to Ireland, which provided figures for 1997 but estimated monthly †† annual % change
Source: Eurostat

Pan-Europe pay deals predicted

By Andrew Bolger, Employment Correspondent

Just over half of European multinationals believe economic and monetary union will lead to pan-European pay agreements and levels, according to a survey published yesterday by Deutsche Bank and Towers Perrin, the management consultants.

The survey of 200 multinationals found half of the companies had considered the consequences of monetary union for their remuneration policies and 77 per cent expect increased pay transparency throughout Europe to lead to common remuneration programmes in the long term.

Although 42 per cent of respondents expect monetary union to lead to harmonisation of social security provision, most companies expect to make no change to their employee benefits. A third expect to harmonise their pension schemes across Europe, but this rises to 56 per cent of companies based in the UK and US.

Companies were almost evenly divided on what monetary union would mean for the extent of pan-European pay talks and employee consultation – even though the trade union movement throughout Europe has made it clear that these are among its key objectives.

Companies are also undecided on whether European works councils will have a greater role to play in pay negotiations – though they expect variable pay for employees will continue to be determined locally.

Don Cuthbert, head of Emu implementation strategy at Towers Perrin, said: "At its simplest, the euro will affect the payroll, pensions and benefit arrangements in the member states that join. At its most complicated, we may be looking at the beginning of harmonised pay rates and pan-European pay negotiations."

Scandinavian multinationals were best prepared for Emu. The research indicates that multinationals will have different levels of preparation depending on where they are located, with US multinationals likely to be better prepared if they are based on continental Europe, rather than the UK.

The Human Resources Implications of Emu. Available free from Towers Perrin on 0171-379-4411

WORLD AIDS CONFERENCE UN ANNOUNCES 30-COUNTRY PROJECT TO CUT RISK OF HIV TRANSMISSION

$50 treatment can save Aids babies

By David Pilling in Geneva

Thirty thousand HIV-positive women in the Third World could benefit from a radical treatment costing as little as $50, which halves the risk of a mother transmitting Aids to her baby. But the 30-country pilot project, announced yesterday by the Joint United Nations Programme on HIV/Aids, will come too late for the 570,000 babies expected to contract the killer disease next year. The treatment can also endanger the mother.

Since the beginning of the HIV pandemic in the late 1970s, about 3m infants have been infected, the vast majority of them in sub-Saharan Africa. Nearly 500,000 children died of Aids last year.

About a third of mothers with HIV in the developing world pass on their infection to their children, compared with only about 10 per cent in the west, where access to anti-retroviral drug therapy is widely available. Western treatment, aside from being prohibitively expensive at an estimated $1,000, is impractical in much of the developing world, where many women do not receive adequate ante-natal care and where it is often not possible to give drugs intravenously during labour. Nine in 10 pregnant women – and in Africa increasingly teenagers – have no idea they are HIV-positive.

The UNAids scheme, which should come into operation in many sub-Saharan and some Asian countries over the next few months, is an attempt to apply the findings of a recent study into HIV transmission conducted in Thailand. That research showed that, by administering a short course of AZT, the oldest anti-retroviral, women who did not go on to breast feed were 50 per cent less likely to pass on HIV. Longer courses administered in the west cut the transmission rate by as much as 80 per cent.

"We don't have perfect strategies right now," said Thierry Martens of the World Health Organisation, which is also working on the project. "But we have to buy time."

UNAids has negotiated with Glaxo Wellcome, the UK pharmaceuticals company that manufactures AZT, a discount rate of up to 75 per cent on prices in the industrial world. That should put the cost of a short course of drugs at about $50, with a further $70 or so needed per patient for testing and the provision of a substitute for breast milk through which HIV is often transmitted. A parallel programme being organised by the French government has negotiated similar deals with Bristol-Myers Squibb and Roche.

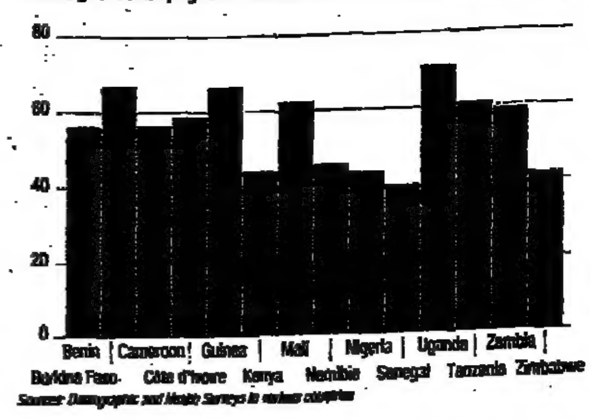
The scheme, which UNAids would like eventually to see applied worldwide, is fraught with difficulties. Finding a safe alternative to breast milk is extremely difficult. Where water is impure, it may be more risky to a baby than the danger of contracting HIV. Programme directors admit they do not know if women seen with tins of powdered milk will be stigmatised.

Neither does Unicef, a third sponsor of the programme, want to be seen encouraging the use of powdered milk. "We still very much continue to promote breast feeding to women who are HIV negative or whose status is uncertain," said Lida Lhotska of Unicef.

And that is not the only dilemma. Mothers will be put on potentially life-saving drugs for a month and then abruptly taken off. Even if this does not worsen the HIV infection by encouraging resistant strains, it effectively condemns the mother to death and the child to only one parent, at best. Robin Gorna, executive director of the Australian Federation of Aids Organisations, said that for babies the scheme was encouraging. "But what about the mothers?"

Teenage pregnancies in Africa

Percentage of women pregnant or mothers by the end of their teens, 1990-95



Source: Demographic and Health Surveys in various countries

HIV CONTROL UGANDAN VOLUNTEERS TO TEST SAFETY

Scientists have shot at genetically engineered vaccine

By David Pilling

The first HIV vaccine trial to take place in Africa is ready to go ahead in Uganda, according to Donald Burke, a vaccine expert with the International Aids Vaccine Initiative (IAVI).

The trial, which will be conducted by the Ugandan ministry of health, will inject the vaccine, genetically engineered by Pasteur Merieux Connaught of France, in about 20 HIV-negative volunteers as part of Phase I trials designed to test its safety.

The vaccine has been manufactured by incorporating a small part of the HIV virus into a canary pox virus, which cannot infect humans. The idea is that the bodies of vaccine recipients may be fooled into thinking it has been infected with HIV and produce an immune response.

Of the billions of dollars invested in Aids research each year, only a "minuscule" amount goes into vaccine research, according to Dr Burke, who said a preventative vaccine was the only long-term solution to the Aids pandemic.

Most private sector companies had taken the view that an Aids vaccine would be very difficult to produce and that it would be next to impossible to recoup development costs in the Third World where the market for a vaccine was believed to be, he said.

IAVI's push for more big trials coincides with the decision this month by the FDA to approve, for the first time, a Phase III efficacy trial for an HIV vaccine.

The vaccine, produced by VaxGen, a Californian biotechnology company, was developed at a cost of $30m, mostly raised from venture capitalists and private individuals.

Even IAVI is cautious about VaxGen's so-called gp120 vaccine.

"It is not likely that gp120 alone will work," said Seth Berkley, the group's president.

"But it's worth a shot."

Islamists target more reformers in Iran

By Robin Allen in Tehran

The fourth court session in the trial of Gholamhossein Karbaschi, Tehran's reformist mayor, resumes today against a backdrop of intensified efforts by leaders of the conservative opposition factions to hold back pressure for more freedom.

The conservative-controlled judiciary, headed by Ayatollah Mohammed Yazdi, has accused Mr Karbaschi of corruption, embezzlement, and "influence-peddling" during his eight-year term, notably last year and during the 1996 elections. Most Iranians accept the trial is politically motivated.

Mr Karbaschi's role was central in the victory in last year's election of President Mohammad Khatami.

Despite a deterioration in the economy in the 10 months since his landslide election, Mr Khatami is still reckoned to be as popular as last year. If anything, this has been enhanced by the conservatives' public efforts to resist social and political reforms by sniping at his ministers in parliament.

Last week, the conservatives, made up of theocrats, merchants and their secular allies including women deputies, impeached Abdollah Nouri, Mr Khatami's interior minister

Since his appointment last August, Mr Nouri had reshuffled key provincial appointments including governors and city police chiefs, removing a number of conservatives.

The only answer the conservatives have had so far to Mr Khatami's reformist programme has been to snipe at his ministers and allies by using the levers of power they control: the judiciary, the security forces and parliament.

Now, apart from Mr Karbaschi, they have Ataollah Mohajerani, Islamic Guidance minister, in their sights because they consider he has been too permissive in granting licences to books and other publications; and Kamal Kharazzi, the foreign minister, who is another candidate for impeachment for having allowed in so many US and other representatives of non-government organisations.

Last Wednesday Mr Kharazzi was summoned to appear before the majlis to explain why he had given a visa to newspaper magnate Rupert Murdoch, whom the conservatives view as having unacceptable links with Israel.

Naimi: proposes a strategy of benign intervention to keep Brent prices steady in the $18-$21 range

Saudis think big as price falls concentrate minds among oil-producing countries

Could a new exporters' alliance hold up prices any better than Opec? Robert Corzine reports

The disclosure by Saudi Arabia last week that it wants to see the creation of a new informal alliance of oil exporters raises questions about how such a group might operate, and whether it could succeed any better than the Organisation of Petroleum Exporting Countries in stabilising revenues.

Ali al-Naimi, the Saudi oil minister, declined to say which of eight or nine countries might be potential members. But several big non-Opec members – such as Mexico and Russia – meet his criteria of reserves, production capacity and dependence on oil revenues.

The fact that both countries sent senior officials to last week's Opec meeting in Vienna suggests they also share another characteristic laid down by Mr Naimi: "A willingness to co-operate to moderate prices at a level at which producers can continue to invest and at which consumers can feel they are not being gouged."

But how would such a group implement a strategy of "benign intervention" to keep oil prices steady in a range of perhaps $18-$21 a barrel for UK benchmark Brent Blend and $20-$23 for West Texas Intermediate, the US price marker.

The key, says Mr Naimi, is that it would be "ready to supply more oil to the market or less oil," and to do so with little warning.

The Riyadh pact between Mexico, Saudi Arabia and Venezuela last March is clearly a model for Mr Naimi's vision. That agreement among the three biggest oil exporters to the US, the world's largest energy market, took oil traders and analysts by surprise. "It was a trigger mechanism for bigger thinking in this process," said Mr Naimi.

A bigger group would act in a similar way, intervening when necessary, according to Mr Naimi, or sitting on the sidelines when prices were within the target band.

Although the Saudi proposal for a new exporter's alliance would not mean the demise of Opec, it is an admission of Opec's limitations.

The political and ideological history of Opec – and its occasional role as a focal point for Middle East political rivalries – has been a barrier to wider co-operation with key non-Opec producers, such as Norway, the second largest crude exporter.

Opec's credibility has also been badly damaged in recent years because of widespread cheating on individual national quotas. In addition Opec's growth as an institution has been deliberately stunted by its main members. Power within Opec is held firmly by individual governments, with the secretariat in Vienna having no real influence.

Although Opec has given Saudi Arabia an international stage on which to promote its policies of price moderation and oil market stability, the kingdom may find an informal alliance a more conducive way to oversee oil markets.

It would certainly offer Riyadh and other big producers a more discreet way of doing so than through the twice-yearly Opec meetings, which often break down into public bickering.

But the big question is whether the proposed alliance would prove any more effective than Opec. "The name of the game is revenue," said Mr Naimi, "not market share or prices."

Traders say the threat of sudden action by leading exporters would have the potential to change negative market sentiment, in the same way that co-ordinated action by central banks can affect trading in foreign exchange markets.

The Saudis may also have been motivated by a desire to have more say in the pricing of oil. Although physical supply and demand dictate oil's long-term price, "paper traders" and speculators are a big influence on short-term prices through oil futures markets in New York and London.

Some analysts suggest the Saudi proposal is directed more at causing uncertainty among paper traders than consumers. Certainly a price range of $18-$21 a barrel for Brent is seen by most analysts as relatively modest.

Over the past 10 years Brent has mostly been in a $15-$20 band. Such prices have generally been high enough to meet the budget targets of Opec states without posing a threat to consuming economies. They have also been sufficient to justify investment in the oil industries of higher cost countries outside of Opec, and in alternative fuels such as natural gas.

An alliance might also be useful in helping deal with large-scale events in the international oil industry, such as the eventual lifting of sanctions against Iraq.

Perhaps the weakest link in the argument for a new oil exporters' alliance is holding it together beyond the current price collapse. With the governments of many oil producers looking at revenue falls of 35-40 per cent this year if prices stay low, there is a big incentive for co-operating in such a scheme. But many wonder if it would be as cohesive if prices returned to higher levels.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	4.2	5.4	7.65	8.84	3.61
1989	1.0	4.2	8.99	8.50	3.43
1990	3.6	5.5	8.06	8.55	3.60
1991	6.0	3.7	5.87	7.86	3.21
1992	12.5	1.9	3.75	7.00	2.95
1993	11.6	1.1	3.22	5.86	2.76
1994	6.2	1.4	4.67	7.08	2.86
1995	–0.2	2.1	5.93	6.57	2.61
1996	–3.2	4.9	5.41	6.43	2.15
1997	–3.3	4.9	5.59	6.34	1.73
2nd qtr.1997	–4.8	4.4	5.68	6.68	1.83
3rd qtr.1997	–3.2	5.0	5.55	6.24	1.64
4th qtr.1997	–1.2	5.7	5.63	5.90	1.60
1st qtr.1998	–0.1	6.4	5.47	5.60	1.51
June 1997	–4.5	4.4	5.65	6.48	1.73
July	–4.0	4.5	5.58	6.21	1.84
August	–2.6	5.1	5.58	6.32	1.84
September	–2.9	5.4	5.51	6.20	1.83
October	–1.8	5.6	5.55	6.02	1.60
November	–1.1	5.7	5.64	5.86	1.61
December	–0.6	5.7	5.71	5.80	1.58
January 1998	–0.7	8.0	5.47	5.54	1.59
February	–0.2	8.5	5.46	5.61	1.51
March	0.6	8.8	5.48	5.64	1.44
April	1.2	7.1	5.48	5.63	1.41
May	1.3	7.2	5.51	5.66	1.42

JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.6	5.31	5.16	0.48
1990	2.6	8.5	7.62	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	–0.4	3.78	5.24	1.00
1993	3.0	1.4	2.96	4.18	0.87
1994	5.4	2.9	2.23	4.20	0.78
1995	8.2	3.2	1.22	3.39	0.86
1996	13.7	3.1	0.58	3.03	0.75
1997	8.8	3.9	0.59	2.19	0.87
2nd qtr.1997	8.7	2.8	0.56	2.42	0.83
3rd qtr.1997	8.1	2.9	0.61	2.16	0.82
4th qtr.1997	8.6	3.9	0.66	1.75	0.96
1st qtr.1998	9.5	4.5	0.94	1.71	0.97
June 1997	8.4	2.8	0.58	2.48	0.80
July	8.2	3.0	0.64	2.30	0.79
August	8.3	3.2	0.60	2.13	0.82
September	7.7	2.9	0.58	2.02	0.88
October	7.9	2.9	0.53	1.79	0.90
November	8.9	3.2	0.56	1.74	0.98
December	8.9	3.9	0.87	1.71	1.00
January 1998	9.7	4.5	0.95	1.74	1.00
February	10.3	5.0	1.04	1.76	0.95
March	8.6	4.5	0.84	1.62	0.96
April	8.1	3.6	0.71	1.62	0.98
May	8.0	3.8	0.62	1.37	0.99

GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	9.7	6.4	4.34	6.46	2.61
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.66	2.11
1991	5.1	5.8	9.25	8.42	2.38
1992	7.0	8.1	9.52	7.80	2.45
1993	9.4	7.8	7.28	6.47	2.11
1994	9.6	9.0	5.36	6.86	1.77
1995	3.7	0.6	4.53	6.82	2.00
1996	10.5	7.5	3.31	6.21	1.81
1997	8.4	8.1	3.32	5.65	1.45
2nd qtr.1997	9.2	6.5	3.18	5.82	1.53
3rd qtr.1997	9.0	5.9	3.24	5.61	1.34
4th qtr.1997	5.5	4.7	3.68	5.48	1.42
1st qtr.1998	5.1	3.6	3.54	5.01	1.82
June 1997	9.1	6.4	3.14	5.75	1.46
July	9.7	6.2	3.14	5.56	1.33
August	9.0	6.0	3.28	5.66	1.32
September	8.2	5.5	3.31	5.80	1.38
October	8.6	5.1	3.58	5.58	1.37
November	6.2	4.8	3.74	5.56	1.48
December	3.7	4.5	3.73	5.32	1.40
January 1998	4.4	3.5	3.57	5.12	1.38
February	6.3	3.4	3.51	4.99	1.31
March	5.5	4.0	3.52	4.90	1.28
April	7.2	4.0	3.83	4.90	1.24
May	5.6	3.7	3.63	4.96	1.23

FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	3.9	8.2	7.94	9.08	3.69
1989	7.6	10.0	9.40	8.79	2.88
1990	3.8	9.3	10.32	9.92	3.19
1991	–4.7	2.3	9.62	9.03	3.58
1992	–0.3	5.4	10.36	8.57	3.55
1993	1.1	–3.0	8.55	6.75	3.21
1994	2.5	1.7	5.84	7.21	2.99
1995	7.2	4.3	6.80	7.53	3.17
1996	0.6	–3.5	3.94	6.32	3.05
1997	6.4	1.5	3.46	5.56	2.58
2nd qtr.1997	2.7	–0.8	3.44	5.72	2.81
3rd qtr.1997	5.8	0.1	3.41	5.47	2.41
4th qtr.1997	6.4	1.6	3.65	5.48	2.48
1st qtr.1998	9.8	4.2	3.58	5.03	2.23
June 1997	2.7	–0.8	3.43	5.86	2.76
July	5.4	–0.4	3.39	5.42	2.39
August	5.8	–0.1	3.43	5.53	2.41
September	5.8	0.1	3.41	5.47	2.42
October	7.8	0.8	3.59	5.59	2.43
November	6.9	0.7	3.69	5.58	2.57
December	6.4	1.6	3.69	5.33	2.44
January 1998	9.4	3.4	3.62	5.13	2.38
February	11.8	4.5	3.57	5.01	2.23
March	9.8	5.4	3.57	4.94	2.09
April	13.4		3.63	4.95	2.04
May			3.61	5.02	1.96
June					

ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	7.8	6.1	11.24	10.54	2.71
1989	7.2	5.5	12.42	11.61	2.48
1990	9.2	7.0	11.98	11.87	2.84
1991	7.3	5.9	11.83	13.20	3.45
1992	6.9	3.1	13.86	13.29	3.83
1993	4.7	2.8	10.22	11.23	2.35
1994	6.6	3.6	8.48	10.58	1.87
1995	0.4	–1.8	10.38	12.22	1.72
1996	1.0	–0.2	8.75	9.43	2.19
1997	8.8	9.2	6.83	6.83	1.91
2nd qtr.1997	8.8	9.6	6.92	7.39	2.18
3rd qtr.1997	10.0	11.3	6.79	6.52	1.79
4th qtr.1997	8.2	9.8	6.35	6.02	1.69
1st qtr.1998	8.8	8.4	5.89	5.38	1.33
June 1997	8.9	10.2	6.84	7.06	2.16
July	9.8	11.3	6.87	6.53	1.85
August	11.1	12.1	6.86	6.67	1.80
September	9.1	10.4	6.63	6.36	1.72
October	9.2	10.6	6.82	6.21	1.68
November	7.7	9.6	6.44	6.14	1.74
December	7.8	9.2	6.01	5.74	1.86
January 1998	7.9	8.8	6.03	5.50	1.47
February	8.4	8.6	6.09	5.38	1.34
March	10.1	7.8	5.56	5.21	1.19
April	13.2	7.2	5.18	5.16	1.13
May			5.07	5.22	1.26
June					

UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	6.8	17.1	10.41	9.62	4.48
1989	5.9	17.4	13.96	10.11	4.38
1990	5.3	15.9	14.82	11.56	5.07
1991	2.4	7.9	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.91
1993	4.9	3.5	5.99	7.40	4.01
1994	6.4	5.1	5.57	8.01	3.94
1995	5.9	7.3	6.77	8.16	4.15
1996	6.7	10.0	6.11	7.79	4.08
1997	6.3	11.1	6.94	7.02	3.59
2nd qtr.1997	6.2	11.2	6.60	7.29	3.74
3rd qtr.1997	5.6	11.7	7.21	6.95	3.49
4th qtr.1997	6.6	11.1	7.58	6.48	3.37
1st qtr.1998	6.9	10.2	7.55	6.02	3.05
June 1997	6.3	11.7	6.78	7.10	3.70
July	5.8	11.9	7.07	7.01	3.57
August	5.0	11.6	7.25	7.05	3.48
September	5.8	11.6	7.31	6.78	3.41
October	6.3	10.9	7.38	6.47	3.31
November	6.8	10.6	7.65	6.59	3.47
December	6.7	11.7	7.71	6.33	3.33
January 1998	6.9	10.8	7.57	6.08	3.24
February	7.1	10.3	7.53	6.02	3.02
March	6.6	9.8	7.57	5.96	2.89
April	6.7	10.2	7.51	5.80	2.82
May	6.3	9.2	7.48	5.84	2.84
June	5.4				

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

Islamists target more reformers in Iran

EU agrees new Lomé blueprint

By Lionel Barber in Luxembourg

European Union foreign ministers yesterday agreed a draft negotiating mandate for a new Lomé Convention, the trade and aid instrument which manages EU relations with 71 African, Caribbean and Pacific developing countries.

The deal reached in Luxembourg means that the EU remains on track for concluding a new partnership agreement to succeed Lomé which expires in February 2000.

The agreement is a substantial achievement for the British presidency which hands over the reins to Austria tomorrow. The European Commission – the EU's executive body – will open negotiations with the ACP countries on September 30.

The UK resolved a last-minute hitch over Cuba's request for observer status at the forthcoming negotiations which has the backing of the ACP countries. Ministers granted Cuba's request but warned the Havana regime that the decision did not prejudge any future move to allow Cuba to join Lomé.

The Commission unveiled its blueprint for a new Lomé four months ago as part of an effort to revitalise relations between Europe and many of its former colonies, some of which rank among the poorest countries in the world.

The central aim was to replace the largely unsuccessful trade privileges of the past 30 years which critics argued had encouraged a culture of dependency and risked running foul of the World Trade Organisation.

The Commission proposed replacing them with regional free trade areas to be agreed by 2005 and phased in by 2015. Such trade liberalisation would be flanked by European financial support for private sector development in the ACP countries.

However, the ACP countries – backed by development organisations – argued that if they allowed tariff-free access to EU goods, their economies could not withstand the competition and their public finances would crack.

Robin Cook, British foreign secretary, said the compromise in Luxembourg would mean that the poorest developing countries would be able to export "essentially all products" to the EU duty-free by 2005.

Those countries which do not join a free trade agreement with the EU would be offered "equivalent treatment" to their current position, said Mr Cook.

EU diplomats said that the final text agreed yesterday offered some hope for a better deal for the developing countries but that the wording on an "enhanced" Generalised System of Preferences similar to Lomé privileges was vaguer.

Finally, ministers agreed that any future review of the beef, banana and sugar protocols with ACP countries would be accompanied by EU financial support for transition for the countries affected.

The future negotiations on Lomé will pit the more liberal-minded northern countries including Britain and the Scandinavians against the more protectionist minded southern bloc including France, Spain, and Portugal.

On Cuba, ministers said that future membership of Lomé would depend on "substantial progress" on human rights, good governance and political freedom.

In particular, Cuba should stop obstructing the Havana Ambassadors' Human Rights Group and release the four members of the Dissidents' Working Group from prison.

Businesses agree to tackle electronic commerce pitfalls

By Samer Iskandar in Brussels

Business leaders from more than 60 US and European companies yesterday agreed to co-operate more closely in addressing challenges raised by the development of information technology and the internet.

The initiative aims to remove some of the barriers that have held back the development of electronic commerce, but falls short of a so-called "internet charter" proposed by the European Commission last year.

Martin Bangemann, the EU commissioner in charge of telecommunications and information technology, who organised the meeting, said the group would "propose clear action plans to governments" at a conference to be held early next year.

Bangemann: industry will lead efforts to resolve seven urgent issues

Seven "urgent issues" were singled out as the biggest impediments to the emerging "online economy": taxation of products and services sold on the internet, tariffs, protection of international property rights, encryption, authentification, data protection and liability.

Participants agreed that regulation should be kept to a minimum and be internationally consistent and transparent. In order to allay US authorities' fears that the EU was seeking to regulate the internet, Mr Bangemann insisted future talks would be industry-led, with the Commission acting only as a host.

Elections for a steering committee are to be held by early September. They will be organised by Thomas Middelhoff, a board member of Bertelsmann, the German media group. Mr Middelhoff said that the process would involve "close co-operation with the US and Japanese authorities" and that representatives of consumer groups would be invited to attend future meetings.

He said participants had agreed on all the issues discussed, except liability. A recent German court ruling against a former manager of Compuserve, the online service provider, has raised concerns that internet-related businesses might be held responsible for illegal actions by users beyond their control. "Liability was the only sticking point," said Mr Middelhoff. "It will be the most contentious point in future meetings."

Mr Bangemann said that although intervention by officials should be kept to a minimum, most of the issues required a combination of business and political solutions. Other multilateral organisations are also expected to get involved, such as the World Trade Organisation and the Organisation for Economic Co-operation and Development.

Some of the largest IT-related businesses were represented at yesterday's meeting, including the software companies Microsoft and Netscape, and hardware manufacturers such as Sony, Hewlett Packard and Sun Microsystems. Participants also included potential users such as banks, retailers and publishers.

French and Spanish to help Cuba modernise infrastructure

By Pascal Fletcher in Havana

French and Spanish companies, backed by their governments, have positioned themselves to win big supply and investment contracts in Cuba to help modernise the ageing transport and energy sectors.

Separate visits to Cuba last week by Jean-Claude Gayssot, the French equipment, transport and housing minister, and José Piqué, Spanish industry and energy minister, produced a clutch of sales and co-operation contracts for the businessmen who accompanied them.

They also appeared to boost the chances of major French and Spanish companies winning an increasing share of business opportunities in Cuba's transport and energy sectors, where the Cuban government is seeking foreign capital and technology to support modernisation plans.

Mr Gayssot, whose trip to Havana formally inaugurated regular direct flights to Cuba by Air France, the French national carrier, witnessed the signing of a contract by the Franco-Italian consortium ATR to sell four of its 40-seat, ATR 42-300 passenger aircraft to the island.

The French minister also announced that the French electronics group Thomson was engaged in "well advanced discussions" about a project to upgrade Cuba's air traffic control and safety systems.

In addition, a letter of intent was signed which envisaged the future sale of rolling stock to Cuba by SNCF, the French state railway company. The Cubans also bought a second-hand locomotive and 150 second-hand buses.

For his part, Spain's Mr Piqué said that two major Spanish power companies, Endesa and Iberdrola, had made progress in negotiations on their possible participation in a $500m Canadian-led project to upgrade and expand a Soviet-built thermo-electric plant in Cuba.

FirstKey Project Technologies, the Canadian company leading the project to modernise the plant at Santa Cruz del Norte, is seeking an equity investment partner and technical operator. A Dutch energy company, Nuon, is also a contender.

During Mr Piqué's visit, another Spanish electrical utility, Unión Fenosa, announced it was forming a joint venture to help the Cuban state electricity company, Unión Electrica, introduce new technology and management techniques.

NEWS DIGEST

MOBILE TELEPHONES

Global satellite operator orders 270,000 handsets

ICO Global Communications, one of three companies racing to launch a global satellite system for hand-held mobile phones, yesterday announced orders worth an estimated $200m for handsets. Mitsubishi Electric, NEC, both of Japan, and Samsung of South Korea, are to supply 270,000 of the units, which will enable calls to be made to and from virtually anywhere in the world.

These are the first significant consumer orders placed by the London-based group. Delivery is scheduled for August 2000, the planned start date for ICO's full commercial service. ICO said it expected to place further orders to meet the requirements of an estimated 2m users of the service by 2001. The company, which earlier this month announced a public offering on the Nasdaq stock market, has raised more than $2bn so far from investors.

Iridium, the Motorola-backed rival to ICO, is due to launch the first satellite mobile phone service this September. Globalstar, which is backed by Loral of the US, is planning to launch next year. **Christopher Price, London**

CANADA-US MAGAZINES DISPUTE

Ottawa looks at adverts tax

Ottawa is considering taxing Canadian advertisers who place advertisements in foreign-owned magazines circulating in Canada in a move to protect national periodicals from much larger competitors. The proposal is one option being considered following a WTO ruling last year that Canadian regulations to protect national publications contravened international trade laws. A source said the federal government was also considering direct subsidies to Canadian magazines, but that option appeared less likely to be implemented.

Canadian import tariffs and postal subsidies have effectively prevented US magazines from publishing Canadian editions packed with US advertising. Canada's publishing industry argues that US advertising gives foreign competitors an advantage enabling them to offer cheaper rates to Canadian advertisers. The WTO was acting on a complaint filed by the US, and observers expect the US to file a new complaint when Canada announces new measures to protect its magazine industry from competition posed by US split-run editions. **Scott Morrison, Toronto**

EU-ISRAEL TRADE

Ministers call for action

European Union foreign ministers yesterday called for the full and rapid implementation of the Interim Association Agreement between the EU and the Palestine Liberation Organisation. They were responding to last month's critical Commission report which claimed Israel was blocking the agreement by preventing Palestinians from trading freely with the outside world. The council of ministers also said a notice to European importers to stop importing orange juice from Israel could be withdrawn as Israel had started to comply with the EU's rules of origin regime. Israel last year exported tariff-free orange juice to Europe, without declaring that a percentage of the content was Brazilian and liable to duties. The Commission also said Israel was taking advantage of its trade agreement with the EU by exporting, tariff-free, products from the occupied territories. **Judy Dempsey, Jerusalem**

Clinton sees more China co-operation

By James Kynge and Stephen Fidler in Beijing

President Bill Clinton predicted "more and more and more" strategic co-operation with China yesterday and added that Japan was also keen to develop a security partnership with Asia's emerging giant.

His remarks, made in a keynote speech to students at Beijing University, indicated the growing importance that Washington attaches to Beijing's diplomatic co-operation, especially on Asian issues.

"I predict to you that what you see us doing with China now, working together to try to limit the tension from the Indian and Pakistani nuclear tests, you will see more and more and more of that in the future," Mr Clinton told the students during a question-and-answer session broadcast live on Chinese television.

The president sought to allay Chinese concerns that the US-Japan security alliance, the bedrock of Washington's military presence in Asia, was aimed partly at containing rather than engaging China. Indeed, Mr Clinton said, "what both countries want is a security partnership with China for the 21st century".

Chinese officials have begun talking about the possibility of constructing a "triangular" security relationship between the US, Japan and China. The broad concept, officials said, was that the increase in contacts and transparency between the US and Chinese militaries should be balanced by a corresponding process between Tokyo and Beijing.

However, there was still considerable suspicion in Beijing over a closer military relationship with Japan, China's wartime enemy, Chinese commentators said.

In spite of Beijing's assurances that the development of its strategic partnership would not diminish the importance of ties with third countries, foreign diplomats in Beijing said Russia had cause for concern over a possible decline in the weight that China accords its relationship with Moscow.

"In as much as the Chinese-Russian partnership was partly intended as a counterweight to US influence, the new emphasis on the US-China partnership diminishes the clout of Russia in Chinese eyes," said one foreign diplomat.

In his speech, Mr Clinton was able to address the Chinese people through live television for the second time on his visit. He said that in the information age, individual freedoms are essential for economic success.

"From the Philippines to South Korea, from Thailand to Mongolia, freedom has reached Asia's shores, powering a surge of growth and productivity," he said.

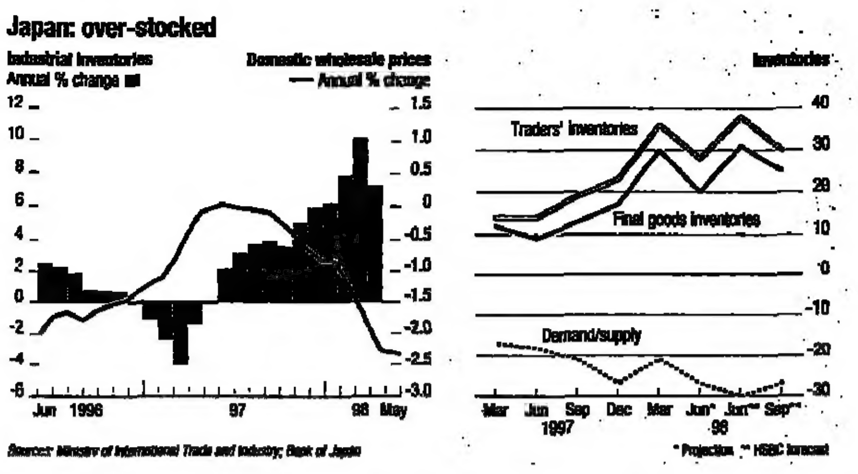
Beijing University was the birthplace of demonstrations for more democracy in 1989 which ended in the Tiananmen Square massacre.

That Mr Clinton was allowed to address its students was the culmination of a rehabilitation for the university back into official favour, and another sign that China's condemnation of the 1989 student protests is softening.

● Boeing yesterday led a band of US companies signing deals with China, securing an agreement to sell 17 aircraft worth $800m. The Boeing contract, which was accompanied by a letter of intent to buy a further 10 B-737s worth $400m, was the largest deal in a series of signings. The deals yesterday added to a number of agreements in the run-up to President Clinton's visit to China, bringing the total value of contracts for Chinese and US companies signed around the Sino-US summit to $3.1bn.

Japan endures the economic timebomb of inventory overload

Gillian Tett and Alexandra Harney report on the historically high levels of unsold goods



Source: Ministry of International Trade and Industry; Bank of Japan

Japan's corporate world may be wallowing in gloom. But yesterday's batch of economic data at least contained one bright spot.

The level of company inventories tumbled 1.7 per cent between April and May. The decline is a striking contrast to the recent alarming trend: since last autumn the level of unsold stocks had surged to a five-year high in April.

Yet even allowing for May's fall, Japanese companies are holding strikingly high levels of unsold goods by historical standards. The risk is that these stockpiles could become an economic "timebomb". There are growing signs that companies are trying to cut production to run down stocks. This could push down prices, giving rise to the widespread fears of deflation.

This is alarming because consumers, knowing that prices will be lower in coming months, delay purchases. Companies in turn are hit because they are left with large stocks, the value of which rapidly depreciates. They are then forced to cut output, affecting employment and private demand.

"Inventories are at clearly unsustainable levels," says Jeffrey Young of Salomon Smith Barney. "The next few quarters are likely to see unanticipated cutbacks in production, worker income and profits."

The problem has arisen because until recently many Japanese companies have been almost as optimistic – and wrong – in their prognosis of the economy as the government. When growth began to slow last year, for example, many companies maintained production, apparently assuming a downturn would be short-lived. Though production has fallen for the last four months, the drop has lagged behind the slump in demand.

Measuring the size of the resulting stockpiles of unsold goods is difficult, since the available statistics do not entirely add up. Though yesterday's "Tankan" survey and data from the Ministry of International Trade and Industry (Miti) say stockpiles have been surging, gross domestic product numbers suggest inventories did not boost growth in the first quarter of this year.

The figure most closely watched by markets is Miti's "inventories to shipments" ratio (stockpiles compared with the level of goods leaving factory gates). This hit a record high in April, with particular increases in the car sector, paper and pulp, steel and construction. May's ratio of 113.5, which was 2.7 per cent lower, is 10 per cent above the historical average.

Miti also said yesterday that industrial production fell 2 per cent between April and May – suggesting corporate Japan is now trying to adjust. Nippon Steel, Japan's largest steel group, for example, expects six-month production to September to be at the lowest level for 27 years because of "a delay in cutting stock levels".

Marubeni, a large Japanese trading company, recently said it would cut residential apartment offerings by 5.7 per cent this year to counter rising inventories. And in the paper and pulp sector, companies such as Nippon Paper Industries, Daishowa Paper and Seihoku have all recently announced sharp cuts in output to deal with a stock overhang.

Some economists, such as Richard Jerram at ING Barings, hope this means the adjustment should be relatively fast. "There are a few industries which are suffering, but they are mainly Asia-related industries," he says, pointing out that introduction of "just in time" manufacturing systems means there has been a structural shift towards lower inventory levels.

But other economists, such as Peter Morgan of HSBC Securities, are more pessimistic. He calculates inventory adjustment has taken an average of 14 months during the last three business cycles – suggesting the current cycle may not be over until next January.

In the meantime, Japanese companies appear to be bracing themselves for further production cuts. The Tankan survey showed that small businesses and large non-manufacturers are all expecting business conditions to deteriorate in the next three months, while even large non-manufacturers predict little upturn. Miti also warned that output could be "adversely affected" by inventory levels for several more months.

STIMULUS PACKAGE HARDEST-HIT SECTORS TARGETED ☐ PROPERTY MARKET HELP ☐ STAMP DUTY SUSPENDED

Singapore cuts growth rate prediction

By Sheila McNulty

Singapore has sharply revised down its 1998 growth forecast for the second time this year but has introduced a S$2bn (US$1.2bn) stimulus package to keep the economy from slipping into recession.

Richard Hu, finance minister, told parliament the government was projecting 0.5-1.5 per cent growth rate, far slower than last year's 7.8 per cent growth.

While analysts said investors were disappointed at the absence of sweeping initiatives, economists were pleased the stimulus package prudently targeted hardest-hit sectors rather than shielding Singaporeans entirely from the crisis at the government's expense.

The stimulus package focuses first on property and will result in a S$800m budget deficit. Economists dismissed the deficit as insignificant, however, noting the government went into the crisis well positioned to tackle the slowdown.

At the end of last year, economists said Singapore had the world's largest government fiscal surplus at 6.7 per cent of gross domestic product, a persistent current account surplus of more than 12 per cent of nominal GDP, foreign exchange reserves of nearly US$80bn, no net external debt and a well capitalised banking system.

Although Singapore's economy is better structured and managed than those in neighbouring countries, many of its industries rely on the region for business. And, all around, Singapore's neighbours appear headed toward recession.

The slowdown has put significant pressure on Singapore's property market. To help, Mr Hu said the government would freeze some land sales; provide additional tax rebates on certain property; and suspend the 5 per cent premium it charges developers of private residential properties for each year they extend work.

Singapore's stockbrokers have also been hit hard, with the value of stock market turnover falling 40 per cent in May 1998, compared with the monthly average in 1997. So Mr Hu announced a one-year suspension of the stamp duty on share transactions.

Hu: stimulus package

He said the government would spend an additional S$670m on infrastructure. Singapore will reduce the costs of using some of its services: shippers will receive a 20 per cent rebate on tariffs when using the port; Singapore Telecom will cut rates on various services; and Singapore Power will provide a 3.5 per cent rebate on electricity tariffs.

"If it proves not to be enough there's nothing to keep them from coming back," said Daragh Maher, economist at ING Barings in Singapore. He is confident the government will ensure the economy holds up far better than others in the region. But Lee Kuan Yew, Singapore's senior minister, noted that when the economy recovered depended upon outside forces. "Singapore and the region will not fully recover until Japan recovers. Nobody, at present, can say with confidence when that will be."

Manila bourse wins over watchdog

By Justin Marozzi in Manila

The Philippine Stock Exchange was yesterday awarded self-regulatory status, ending a protracted dispute with the Securities and Exchange Commission, the market watchdog.

In one of his last executive acts before stepping down as president today, Fidel Ramos conferred the award on the PSE, hailing it as a boost to investor confidence. "The [self-regulatory] status will tell the whole world that the Philippines is a stock exchange that can stand head and shoulders with the rest of the exchanges worldwide," he said.

As a self-regulatory organisation, the PSE will now assume primary responsibility for policing its members. "In effect, we become the policeman on behalf of the SEC, with the SEC continuing to check that the policeman is doing his job," said Jose Yulo, president of the stock exchange.

In the run-up to this latest award, the two bodies had been fighting over powers to investigate insider dealing, with Mr Yulo insisting that any investigation required his prior approval. He has since backed down on the issue, paving the way for agreement with the market watchdog. Uncertainties remain, however, about the exact delineation of responsibilities of the exchange and the SEC.

Matthew Sutherland, head of research at stockbrokers Paribas Asia Equity, said the self-regulatory award would not be a significant incentive for foreign investors. Further reforms were required to increase transparency. "Asia comes with a certain amount of risk with or without self-regulatory status. What we'd like to see is the SEC enforcing greater disclosure for companies, more data in annual reports and increased fines for companies not filing quarterly earnings reports on time," he said.

Trading on the stock market has been extremely thin in the past several weeks, with daily volumes languishing at between 500m pesos-1bn pesos ($12m-$24m). Yesterday, the market gained 2 per cent on the eve of the inauguration of Joseph Estrada as president. It closed at 1760.13 points, down 7 per cent on the year.

S Korea's forced bank mergers please no one

By John Burton in Seoul

No one appeared happy about the forced mergers between South Korea's five weakest and strongest banks yesterday.

Not the workers of the liquidated banks who, worried about job losses, held protests and refused to co-operate with the new owners.

Nor foreign investors who have already stampeded out of bank shares on worries that the nation's few healthy banks will become an ambulance service for the tottering financial sector.

Nor the acquirer banks which initially resisted government pressure to rescue their sick rivals.

Moreover, the forced mergers are only considered a stop-gap measure on the road to the full restructuring of Korea's 26 commercial banks. "This is a first step toward bigger consolidations," said Y.C. Mok, banking analyst at ING Barings in Seoul.

The government has tried to hold the line in preventing a banking crisis by planning to issue Won50,000bn ($36bn) in bonds to finance the recapitalisation of weak banks and support the purchase of their bad loans by a state-run resolution trust fund.

Officials have so far shied away from closing down some of Korea's biggest and weakest banks, including Cho Hung, Hanil, Korea Exchange and Commercial Bank of Korea, because there is not enough money in the deposit insurance fund to cover the closure of one bank, let alone several.

But analysts believe more bank closures are inevitable as the economy is entering its worst recession in decades, which will cause corporate bankruptcies to mushroom.

Of the 12 banks that were subject to review for closure because they failed to meet international capital adequacy ratios, none was able to submit a restructuring plan that received full state approval. The seven banks that were conditionally spared have until the end of July to submit new rehabilitation plans.

This could set the stage for a second wave of mergers. The financial supervisory commission, the new banking regulator, said a failure by the weak banks to improve would lead to consolidation, preferably among themselves given the strong resistance to further mergers from the healthy banks.

But Lee Han-jai, the FSC chairman, concedes that mergers are not an adequate solution given the strong sense of corporate culture in Korea. He cites the example of SeoulBank which was riven by internal feuds after it was created through a merger in the 1970s and led to its near-collapse last year.

An alternative solution would be foreign capital to save weak banks. Germany's Commerzbank recently injected $250m into Korea Exchange for a 30 per cent stake in a debt-for-equity swap. But most foreign banks are reluctant to follow suit since the amount of non-performing loans remains uncertain and is likely to grow.

A test of foreign interest in Korean banks will come this year when the state offers for sale SeoulBank and Korea First, which were recently nationalised.

The *chaebol*, or trading conglomerates, might also be interested in acquiring the banks if the government agrees to a recent proposal to raise the limit on their shareholding in banks from 4 per cent.

Kim Woo Chong, head of Daewoo, has proposed creating a consortium with other *chaebol* and foreign investors to bid for one of the auctioned banks. But the FSC appears reluctant since the *chaebol* could use the acquired bank to finance more questionable industrial projects.

"We would apply the same 'fit and proper' standards that Daewoo would have to meet if it was buying a bank in the UK," said Mr Lee. Few believe Daewoo or any other *chaebol* would meet the grade as their own financial institutions have fared even worse than the banks.

New Zealand faces spending cuts

By Terry Hall in Wellington

New Zealand's prime minister, Jenny Shipley, has announced a further round of spending cuts, which she said were essential to help the country cope with the worsening impact of the Asian financial crisis.

Latest data suggest the economy is in a recession, mainly because of a drop in trade with Asia, which takes around 37 per cent of New Zealand's exports.

Mrs Shipley said after an emergency cabinet meeting that the government would cut its spending by a further NZ$300m (US$153m) over the next two years. This would be in addition to the NZ$300m of cuts announced in the May budget, in effect a NZ$600m reduction in the NZ$5bn of increased spending that was planned under the agreement with its coalition partner, NZ First.

Mrs Shipley said the cuts would be part of a total package aimed at reducing costs to business and helping exporters.

She emphasised that reports from both the Treasury and Reserve Bank considered by the cabinet had portrayed the economy as still being in a good position to handle the Asian problems. These said the economy would pick up later this year, helped by the recent sharp devaluation of the New Zealand dollar, which was boosting exporters' competitiveness.

In a week in which economic statistics dominated newspaper headlines, New Zealanders learned:

● The current account deficit was much lower than the NZ$8bn widely expected by pessimists for the year to March 31, but remained at a high 7.2 per cent of GDP;

● The economy shrank by 0.9 per cent in the first three months of the year, far worse than the 0.2 per cent predicted by most forecasters. Mrs Shipley intimated that it was still expected to be negative in the June quarter but would then start improving.

● The trade outlook is weak, with the surplus in recent months running at much lower levels than normal. For the three months to May 31 the surplus was NZ$137m, down from NZ$401m for the same period of last year.

● A visit by a delegation from Moody's credit rating agency gave the impression that it was likely to cut the country's credit rating from AA1 to AA2, the same rating as Australia.

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FINANCIAL SERVICES BIG RISE IN APPLICATIONS FROM OUTSIDE NORTH AMERICA FOR CFA QUALIFICATION

Foreigners eye analyst status in US

By John Authers in New York

There has been a sharp increase this year in applications from outside North America for the CFA – Chartered Financial Analyst – qualification as potential investment analysts in Europe and Asia react to the growing globalisation of the financial services industry.

The number of candidates from outside the US and Canada for the qualification, which is administered by the US-based Association of Investment Management and Research, has almost tripled in the last three years, from 4,923 in 1995 to 14,385 this year.

Those from outside North America have risen as a proportion of all applicants over that period from 20.8 to 33.07 per cent. Hong Kong accounts for the most applicants from outside North America, followed by Singapore, Japan and the UK.

The qualification, which has been in existence since 1959, and covers a range of topics to do with investment valuation and management and capital market theory, has traditionally been dominated by North Americans. Most use the qualification to become equity analysts (more than 14 per cent of this year's entrants), or portfolio managers for fund management groups (almost 10 per cent).

Merrill Lynch, the new York-based investment bank, employed the most CFAs last year – 165. This was followed by Smith Barney, another investment bank, with 126. But several large mutual fund management groups also appear in the list of the largest employers, with Scudder, Stevens and Clark and Putnam Investment Management, two fund management groups largely based in Boston, both employing 95.

There is also evidence of growing demand for securities professionals from commercial banks in the US, which have traditionally been barred by regulators from diversifying away from their traditional lending businesses into capital markets. Some banks, such as Wells Fargo in San Francisco, now offer salary incentives to pass the exam.

Ray De Angelo, who is responsible for the association's international operations, said the rise in applications from outside the US was "an indicator of the globalisation of the financial markets and investment profession". It also showed the increasing power of American institutions in global capital markets.

He said many candidates had attempted the qualification because it was American, and because it offered them an international "currency", making it easier for them to work outside their home country – another factor increasingly important for career advancement in the profession.

The development follows increasing interest from Asia in taking MBA qualifications offered by US universities. Most people taking the qualification are aged between 25 and 35, and are self-taught, using short training courses and textbooks to prepare for the qualification, which requires 18 hours of examinations. Test centres to take the CFA are open in 73 different countries around the world.

Tripp evidence may prove decisive in Clinton case

Investigation into allegations of perjury enters vital phase. **Gerard Baker** reports

The long-running investigation into allegations of perjury and obstruction of justice by President Bill Clinton reaches a critical phase today when one of his principal accusers testifies before a Washington grand jury.

Linda Tripp, a former White House employee, first alerted Kenneth Starr, the independent prosecutor, in January to the possibility that Mr Clinton had lied, and then encouraged others to lie, about a sexual affair with a former White House intern.

Ms Tripp recorded more than 20 hours of telephone conversations with Monica Lewinsky, the former intern at the centre of the investigation, in which Ms Lewinsky is alleged to have said she had an affair with the president and hinted that Mr Clinton and others tried to persuade her to deny it under oath.

Ms Tripp could prove central to Mr Starr's case. She befriended Ms Lewinsky and had extensive communication with her about her alleged affair with the president.

Most importantly, Mr Starr is believed to have obtained a document of "talking points" – legal guidance given by Ms Lewinsky to Ms Tripp, but not apparently written by the former intern – that seemed to encourage Ms Tripp to lie about what she knew about another relationship involving Mr Clinton.

The independent prosecutor is eager to discover where the talking points came from. If they can be traced to someone in the White House they would be the strongest evidence he has that could point to perjury and obstruction of justice.

Ms Lewinsky was called as a witness in the Paula Jones sexual harassment case in which Ms Jones, a former Arkansas employee claimed Mr Clinton had made an aggressive unwelcome advance on her when he was Arkansas governor in 1991.

Ms Jones's lawyers attempted to demonstrate a pattern of such behaviour and subpoenaed evidence from Ms Lewinsky, but the former intern denied any affair.

Mr Clinton also denied under oath any sexual relationship. That case was dismissed by a federal judge in April, but the statements given by Mr Clinton and Ms Lewinsky still have binding legal force.

Ms Tripp's evidence could be crucial in determining where Mr Starr's investigation proceeds from here.

For several months the independent prosecutor and Ms Lewinsky have been negotiating over an immunity deal, whereby she would avoid prosecution for her own alleged perjury, if she would tell him potentially incriminating details of her contacts with Mr Clinton and the White House.

Her new lawyers, appointed earlier this month after Ms Lewinsky fired the colourful but ineffective William Ginsburg, have stepped up efforts to secure a deal but have not yet reached agreement.

Linda Tripp: evidence could be crucial AP

Canada banks under fire over disabled

By Scott Morrison in Toronto

Two of Canada's largest banks, already facing mounting public opposition to a proposed merger, will be subject to a police investigation into whether they have failed to meet commitments to hire more disabled employees.

The negative publicity surrounding the investigation may make it more difficult for Royal Bank and Bank of Montreal to sway public opinion and convince federal authorities that their C$46bn (US$31.3bn) proposed merger would be good for customers and employees. The two banks, however, maintained that the proposed merger and their targets for hiring disabled person were totally unrelated issues.

Legislators and finance department officials have voiced concern that the merger, one of two agreed bank unions in Canada pending approval, would result in too much concentration in the sector, as well as costing jobs.

The Canadian Human Rights Commission said it expected this week to ask the Royal Canadian Mounted Police to investigate whether the banks have failed to live up to agreements in which they pledged to increase hiring of disabled persons. The two banks several years ago made such a commitment in response to complaints filed against them by a group representing the disabled.

Should the police determine that the banks have ignored their agreements, Bank of Montreal and Royal Bank would face a trial and a C$50,000 fine. More significant could be the damage to the banks' credibility, as well as the perception that the two are insensitive to such employment issues.

Both banks said they were leaders in promoting workplace equality. They responded to earlier complaints by setting targets for hiring disabled persons in 1994 and 1995. At least two other Canadian banks face similar complaints from disabled groups, but those cases are still in the process of conciliation.

NEWS DIGEST

OILFIELD DEVELOPMENT

Pemex gets $1bn loan from Japan's Eximbank

Pemex, the Mexican state oil company, said yesterday it had been granted a $1bn loan by the Export-Import Bank of Japan to help develop a rich oilfield in the Bay of Campeche that is expected to cost $5bn by 2000.

The loan, signed in Tokyo during a visit by José Angel Gurría, the finance minister, was the largest Pemex has received from a single bank. It carries an annual interest rate of 2.3 per cent and the repayment period is 8.5 years after a 3.5 year disbursement period.

The funds will finance development of the Cantarell oilfield, the richest in Mexico with proven reserves of 13.5bn barrels. It produces about 1.32m barrels a day of the country's total output that has averaged 3.13m b/d this year. Pemex embarked on an $8bn investment programme this year, mostly aimed at boosting crude output, but a sharp drop in oil prices cramped its plans. In the first six months, Mexican crude export prices averaged $10.64 per barrel, compared with a target of $12.50. **Henry Tricks, Mexico City**

Bufete wins Pemex contract, Page 22

US ECONOMIC CONFIDENCE

Fed considers rates rise

Policymakers at the US Federal Reserve begin a two-day meeting today to assess whether to lift US interest rates, as further evidence emerged yesterday of rising economic confidence.

Housing sales edged up by 0.3 per cent last month to a seasonally adjusted annual rate of 890,000 – close to the 35-year record high reported earlier this year.

May's figures represent the ninth month in a row that home sales have exceeded 800,000, the longest run in 21 years. Sales of new one-family homes rose 16 per cent compared with the May 1997 figure of 764,000, according to the commerce department.

Low mortgage rates, the booming stock market and strong employment prospects are credited with boosting the housing market. The median price of a new home rose 6.3 per cent year-on-year to $149,900 last month. Overall, the small monthly rise in housing sales surprised analysts, who had expected a slight decline. **Richard Wolffe, Washington**

GUYANA RIOTS

Protesters take to streets

Thousands of protesters took to the streets of Guyana's capital Georgetown yesterday, directly challenging the government's authority and bringing the country closer to political crisis.

The army was called out to support heavily armed police patrols, following the latest of several days of protests by groups opposed to the government of President Janet Jagan.

The riots, accompanied by the firebombing of several government and private buildings, have been aimed at unseating the president following her win in a disputed general election in December.

The protests are led by the People's National Congress (PNC), whose leader Desmond Hoyte claims that Mrs Jagan obtained her election victory by "stuffing ballot boxes". PNC members have refused to take their seats in parliament. **Raymond Colitt, Georgetown and Canute James, St Lucia**

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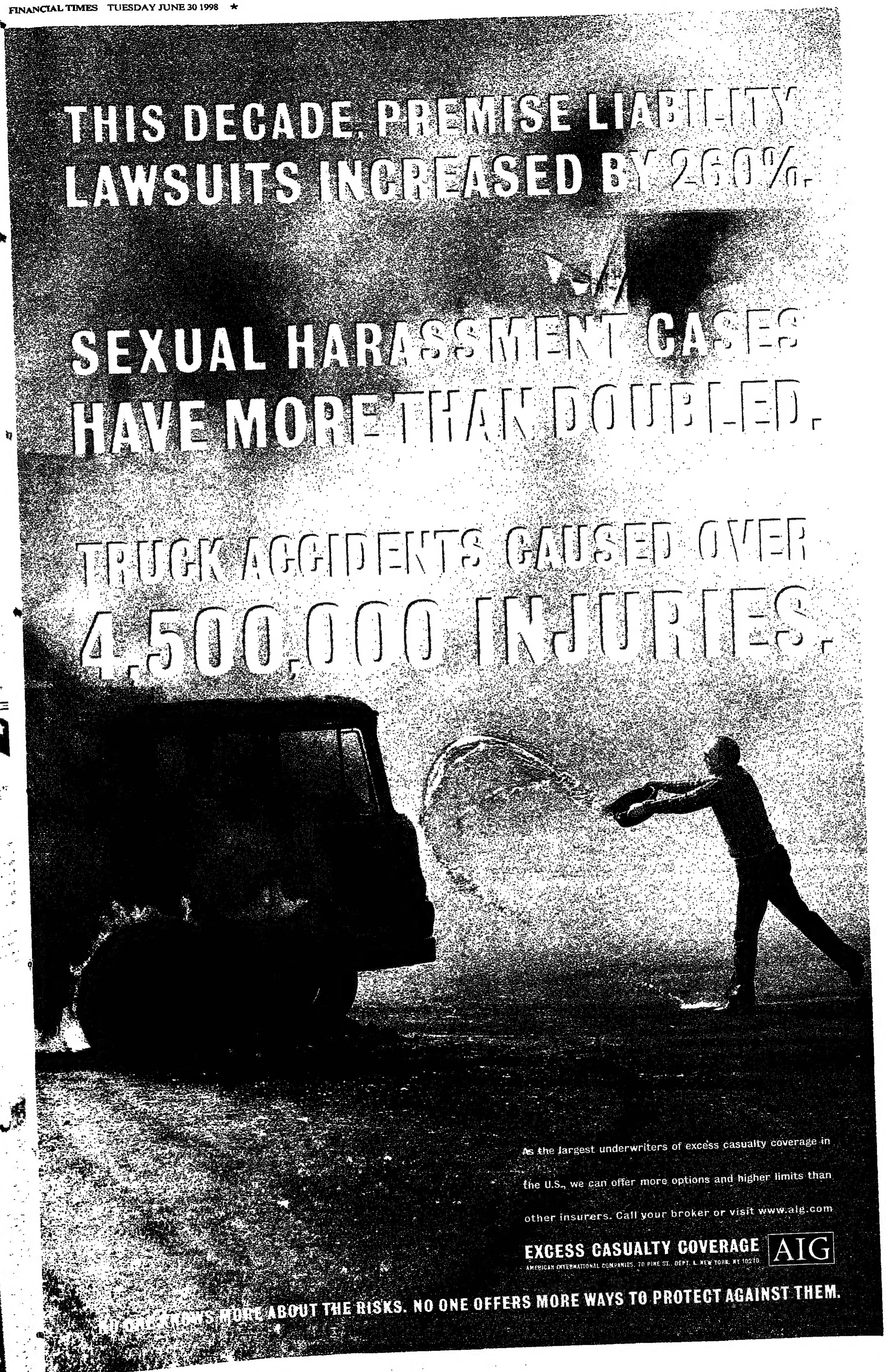

ENTERGY NEW ORLEANS OWNER OF LONDON ELECTRICITY DENIES ISSUING THREATS OVER PROPOSED BAN ON NEW GAS PLANTS

US company wins $670m power consent

By David Wighton, *Political Correspondent*

Entergy of New Orleans has won UK government consent for a £400m ($670m) gas power station development in spite of ministers' efforts to slow the "dash for gas" to protect the coal industry. Entergy has received the final consent it needs to build an 800MW station at Damhead Creek to the east of London.

Entergy, which owns London Electricity, was one of the US companies which was reported to have threatened the government with legal action over its proposed ban on new gas power stations.

But Entergy yesterday denied it had issued any threats and insisted it had merely convinced the government that the project was so far advanced it should be allowed to proceed.

The company was given its final permission three weeks ago, before last week's announcement of a tighter regime for the granting of consents.

The new policy, designed to give coal a "breathing space" while the electricity market is reformed, takes a lenient view of projects like Damhead Creek which lack only so-called section 14.2 consents.

These will be granted as long as the projects have gas contracts whose terms would not "distort competition". In contrast, there will be a presumption against allowing through projects that lack section 36 or section 14.1 consents.

The government's Department of Trade and Industry last night confirmed that in addition to Entergy, there was "a handful" of projects lacking section 14.2 consents which would be expected to proceed.

There has been speculation that the government watered down a proposed tightening of the consents regime following strong representations from independent power station developers including Entergy, Enron and Intergen. Some US companies are believed to have asked Washington to intervene on their behalf. However, neither Enron nor Intergen will benefit from the special treatment of section 14.2 consents.

Entergy said it believed it had been given the go-ahead because it had acted under the reasonable expectation that it would be granted the section 14.2. "We had been proceeding in good faith and had made a substantial investment," said Mike John, Entergy's international spokesman.

The government's crackdown on new gas-fired power stations was attacked as "a blanket ban in all but name" by some developers. But others, whose projects lack section 36 or 14.1 consents, believe they have a real chance of getting the go-ahead.

"It will be up to us to demonstrate why our project is in the public interest," said one. Some developers also welcomed the government's decision to allow the electricity regulator to determine when the new restrictions should be lifted.

PowerGen purchase, Page 26

NORTHERN IRELAND TENSION RISES AS CLIMAX OF PARADES SEASON NEARS ■ ASSEMBLY WILL DIFFER FROM SCOTS COUNTERPART

Hardliners to defy ban on parade route

By John Murray Brown in Portadown

Northern Ireland last night was bracing itself for a possible violent confrontation as angry members of the fiercely Protestant Orange Order warned that they would defy a decision to re-route next Sunday's march at Drumcree on the edge of the small market town of Portadown.

With Orangemen threatening a series of protests across Northern Ireland, the security forces are preparing for possible unrest ahead of the march which last year led to widespread nationalist violence when it was forced through the largely Roman Catholic Garvaghy Road.

The dispute is certain to overshadow the opening session of the new Northern Ireland assembly where David Trimble, the Ulster Unionist leader, is expected to be elected first minister of the region's new administration.

Alistair Graham, chairman of the independent Parades Commission, said the decision to re-route the march "reflects failure – the failure of people to find a way forward from the entrenched positions which have led to past conflict and confrontation".

"Given the absence of any positive move towards accommodation, we cannot see at this stage how a parade could proceed again this year without having a very serious impact on community relationships, both locally and more widely across Northern Ireland," he said in Belfast.

Drumcree, he said, had become the touchstone, the litmus test, the line in the sand, the landmark event in the whole parading issue in Northern Ireland. "And yet we all know that this one is not simply about the parade itself, is not just about getting Orange feet on, or keeping them off, the Garvaghy Road."

David Jones, spokesman for the Portadown Orange Lodge said: "We don't recognise the Parades Commission decision and it will be our intention to parade – as we have done since 1807 – to Drumcree parish church, hold our service and return back into Portadown along the Garvaghy Road."

Mr Trimble was yesterday seeking an early meeting with Ronnie Flanagan, the Northern Ireland police chief. He said he was "dismayed and disappointed" at the decision and called for restraint on all sides.

About 1,000 British troops arrived in Northern Ireland over the weekend in support of what is expected to be one of the biggest security operations mounted since the ceasefires were announced by the republican and loyalist terrorists in 1994.

The Orangemen have five days to issue a legal challenge to the judgment, which can only be overruled by the secretary of state – on public order advice from the chief constable.

The rising tension in the area was underlined when police were attacked with petrol bombs by youths in a nationalist estate in nearby Lurgan after uncovering a cache of Semtex and explosives in a coal bunker.

Wordplay: the Drumcree message on a wall in Portadown is one of defiance from the unionist community — Paul McErlane

New lawmakers will be on tight rein

UK parliament will wield power over region's assembly, **Andrew Parker** writes

Legislation to establish the Northern Ireland assembly will provide it with significant lawmaking powers. But, as with the planned Scottish parliament and Welsh assembly, strict limits will be placed on those powers.

In accordance with the doctrine of Westminster sovereignty, the UK parliament will in theory retain the ability to veto any legislation approved by the new regional institutions.

The Northern Ireland bill, to be published in parliament in Westminster next month, will propose three categories of lawmaking powers: those reserved for the UK parliament: those which could potentially be devolved (handed down to a regional assembly): and those to be exercised by the assembly once it disposes of its shadow status next year. The Scotland bill outlined two categories of lawmaking powers: those reserved for the UK parliament and those that will be devolved.

The Northern Ireland bill will propose lawmaking powers in the six areas for which the UK government's Northern Ireland Office has responsibility: agriculture, economic development, education, environment, finance, and health and social services.

However, the bill will point to the assembly assuming lawmaking powers over home affairs once reviews of the criminal justice system and policing are completed. A ministry of justice could be formed in two to three years.

The bill will not propose any tax-raising powers for the assembly. The Scottish parliament will have the ability to raise the standard rate of income tax by up to 3 per cent, which would yield £450m ($750m). But a similar power for the Northern Ireland assembly would yield only £35m.

Like the Scotland and Wales bills, the Northern Ireland bill will be largely silent on the means by which the UK government is to allocate money to the assembly. In practice, the devolved institutions will assume the budgets of the territorial departments. The Northern Ireland Office receives a block grant of £8bn from the Treasury.

Disputes between the Northern Ireland assembly and the UK parliament, likely to focus on the former's precise areas of legislative competence and its grant from the Treasury, will be resolved by the judicial committee of the Privy Council.

The first task of the assembly while in shadow status will be to establish a north-south ministerial council, and decide its areas of competence. Composed of ministers from the assembly and from the parliament of the Republic of Ireland, the council will be responsible for all-Ireland co-operation. The areas of competence, to be agreed by the end of October, may include agriculture, education and tourism.

A British-Irish council, comprising representatives of the British and Irish governments and members of the three devolved assemblies, will also meet while the Northern Ireland assembly is in shadow form. It is expected to consider issues of mutual interest, such as fisheries and transport.

The advent of the assembly is likely to reduce Northern Ireland's influence at Westminster. In the long term, the post of chief Northern Ireland minister will probably be replaced by a senior minister with responsibility for relations with all three regional assemblies.

The number and role of Northern Ireland's 18 MPs in the House of Commons is also expected to come under scrutiny. The Scotland bill points to a significant reduction in the number of Scottish MPs, which in turn may prompt a cut in Northern Ireland's representation at Westminster.

Changes in aid policy underlined

By David Buchan, Diplomatic Editor

Developing countries need far more than financial aid to lift themselves out of poverty, Britain's top aid official has told an international conference. He was speaking in the wake of controversial remarks by his minister, Clare Short, on "unnecessary" aid appeals by UK charities.

"In the long drama of human development, aid has little more than a walk-on part," said John Vereker, permanent secretary (chief official) at the Department for International Development (DFID). Far more important was the commitment of third world countries to policies benefiting their poor and to creating peace. Of the world's 34 poorest countries, "20 are in conflict or have just emerged from conflict", he said.

Mr Vereker's speech presented to an aid policy conference outside Washington provided some wider underpinning to Ms Short's specific complaint that UK aid charities were wasting money and attention by launching a new appeal for the famine in Sudan. She outraged the charities by calling their appeal unnecessary, arguing that Sudan's problem was not lack of foreign aid money or food, but its endemic civil war stopping the food getting in.

Mr Vereker spelt out the intellectual argument for a broader approach to development that has led Ms Short and DFID to claim a wider policy role beyond being just an administrator of UK aid. Over the past year, Ms Short has become the UK governor on the World Bank board, a post traditionally filled by the chancellor of the exchequer, while DFID has taken over from the Foreign Office responsibility for the Know How programme in eastern Europe.

The UK has pledged support for the goal of halving by 2015 the number of people – currently 1.3bn – living in extreme poverty, defined as subsisting on less than one dollar a day.

Mr Vereker said he thought the goal was achievable, "but only if the poor countries themselves are fully committed to it".

BA recruits low-cost rival's lawyer

By Michael Skapinker, Aerospace Correspondent

British Airways has recruited to its senior staff the lawyer representing EasyJet, the low cost airline which has accused BA of trying to drive it out of business.

Robert Webb, one of Britain's leading aviation lawyers, will take up the newly-created post of BA general counsel in September. As well as acting for EasyJet in a High Court action against BA last month, Mr Webb represented Richard Branson's Virgin Atlantic in its "dirty tricks" action against BA in the early 1990s. He has often acted for BA.

Mr Webb, who will work full-time for BA, said he would be the airline's "legal director, family solicitor and local thug". He declined to reveal how much BA was paying him.

He said the job arose out of a chance encounter at Waterloo station in London a few weeks ago with Robert Ayling, BA's chief executive. Mr Webb had just persuaded the High Court that EasyJet should be allowed to proceed with its action against Go, BA's new no-frills subsidiary, although his application for an injunction to prevent Go from operating was turned down.

Stelios Haji-Ioannou, EasyJet's chairman, said Mr Webb telephoned him with news of his move yesterday. "My immediate reaction was to laugh. I can't say anything bad about Robert Webb, but it shows how ruthless Bob Ayling is." Mr Webb said: "Stelios is a real personality, a breath of fresh air and I won't hear a word said against him."

He said he was not worried that former clients would quote back to him words he had used in court when acting against BA. "Those are not the things I've said. Those are the things they've said through my mouth," Mr Webb explained.

Oxford closes high-technology gap on Cambridge

By Brian Groom in London

Oxford is fast catching Cambridge as Britain's leading centre for high-technology industries stimulated by university scientific research. The news will surprise Cambridge, which sees itself as Europe's leading technology hotspot and a potential rival to California's Silicon Valley.

Analysis of the areas around the two ancient university cities estimates the Oxford region's high-technology employment at more than 26,400 in 730 companies. This puts it little more than 10 per cent behind the Cambridge area, which has about 30,000 employees in 1,000 businesses.

The gap may be closer still because Oxford has larger companies – an average of 36 staff each to Cambridge's 29 – that stimulate more ancillary activity.

Cambridge entrepreneurs believed their closest challenger was France's Sophia Antipolis, a science park on the Côte d'Azur which has 1,050 companies with 16,000 employees.

The research was conducted by Elizabeth Garnsey of Cambridge University's department of engineering and Judge Institute of Management Studies, and Helen Lawton Smith of Coventry University's Centre for Local Economic Development.

"Cambridge is still ahead, but Oxford is catching up rapidly," they say. "Cryogenics (low-temperature science) and life sciences have been particularly important in Oxfordshire. In Cambridgeshire, computer hardware and software activities were more in evidence."

The "Cambridge phenomenon" report, published in 1985 by consultants Segal Quince Wicksteed, which identified the growth of Cambridge as a high-technology centre, dismissed Oxford as an also-ran with barely one-sixth of the number of companies.

That may have been an underestimate, but Oxford got off to a slower start. Oxford Science Park was not established until 1991 – 21 years after Cambridge's – and some academics were hostile to the commercial exploitation of research.

Attitudes have changed, however. Oxford set up Isis Innovation, to help researchers create enterprises, and has supported biotechnology spin-offs such as Oxford Molecular, Oxford Asymmetry, Oxford Biosciences (now Powderject Pharmaceuticals) and Oxford Biomedica.

Oxford has more manufacturing, which produces larger companies. The authors say Oxford Instruments, the scientific and industrial instruments group which employs 1,000 in the region, is more successful than many Cambridge companies.

Others in the Oxford area include Research Machines, the educational computer company, and Solid State Logic, which produces recording equipment. Inward investors include Sharp and Yamanouchi of Japan, which established research laboratories, and the US chemicals company Dow Elanco.

NEWS DIGEST

EU 'MAD COW' BAN EASED

First beef export for two years eaten in Brussels

The first export consignment of beef to leave the UK for more than two years was served up in Brussels yesterday. However, Northern Ireland meat exporters who supplied the meat warned that it would be several months before significant sales could be secured.

Mo Mowlam, chief UK minister for Northern Ireland, said that the region's beef was among the safest in the world. But "we have to be realistic; it is not going to be easy to get markets back".

She was speaking as the Livestock & Meat Commission for Northern Ireland celebrated the ending this month of a prohibition on beef exports by providing lunch guests with the first taste of UK beef sold legally outside the country for 28 months. The meat came from a one-tonne shipment bought by Good Meat, a Belgian company.

Britain was banned by its fellow European Union countries from exporting beef in March 1996 after UK scientists identified a link between BSE, or mad cow disease, and nvCJD, a similarly fatal disease affecting people.

Northern Ireland has been allowed to resume exports because it has a computerised tracing system recording the history of cattle. **Michael Smith, Brussels**

ACQUISITION OF DIGITAL EQUIPMENT

Scots plants to shed 500 jobs

The takeover by Compaq of Digital Equipment will lead to the loss of 500 jobs in the companies' factories in Scotland. Employment will drop from 4,000 to 3,500 but only one small manufacturing operation will close.

The job losses are part of a 20 per cent cut in the worldwide workforce of the two companies which will see 17,000 people lose their jobs as a result of the $9bn takeover agreed in January. The deal makes Compaq the biggest computer manufacturer in the world after International Business Machines. Production of Digital's personal computers will be transferred from Irvine in Ayrshire to Compaq's plant at Erskine near Glasgow. Compaq will close the plant at Stirling of its subsidiary Tandem where 80 people make large computers for financial services providers. Compaq's Erskine plant, which opened in 1988, makes portable and desktop computers for the European, Middle East and African markets. **James Buxton, Edinburgh**

Compaq changes, Page 22

RETAIL SPENDING

Consumer credit up by $2.2bn

The strength of retail activity in May was underlined by figures from the Bank of England, the UK central bank, showing a £1.3bn ($2.2bn) rise in consumer credit, up from the £900m increase that was recorded in April. Retail sales volumes had risen by 1.7 per cent in May, helped by better weather, so the jump in credit expansion was not unexpected. Analysts were slightly surprised, however, by its composition.

The bulk of May's credit increase comprised net bank borrowing, with credit card borrowing subsiding to a three-month low. Economists had expected credit card borrowing to be stronger. The annual growth rate of the narrow money supply measure M0 – cash plus banks' balances at the Bank of England – dropped from 6.3 per cent in the year to May to 5.4 per cent in the year to June. **Robert Chote, London**

GAMING DUTY

Concession to casino industry

The government has made a concession to the casino industry over the sharp rise in casino gaming duty proposed in the Budget. The Budget measure increased the top rate of gaming duty from 33⅓ per cent to 40 per cent. It also lowered the four casino duty thresholds.

More than 80 per cent of gaming duty is paid by London's 21 casinos. Most of the rise would have been borne by London Clubs International and Capital Corporation, the two largest casino operators in the capital.

The government now plans a fifth tax band of 30 per cent to bridge a gap between the 25 per cent and 40 per cent bands proposed in the budget. It also proposes altering the duty thresholds. **Scheherazade Daneshkhu, London**

MARKS AND SPENCER

Former chairman dies

Lord Rayner, the first non-family chairman of the Marks and Spencer retail chain, has died.

He was appointed to the company's board in 1967, only 14 years after joining, and three years later was invited by Edward Heath, then prime minister, to conduct an inquiry into reorganising the defence ministry. He abolished the aviation and supply ministry, setting up instead the defence procurement executive.

Later he was to be seconded to government from 1979 to 1982 to head a task force set up by Margaret Thatcher, then prime minister, to streamline the civil service.

Lord Rayner, who was chairman of M & S for seven years to 1991, accelerated the company's expansion into mainland Europe begun by his predecessor Lord Sieff, and opened the first stores in east Asia. He was born in 1926 and never married.

BUSINESSES FOR SALE

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Hostage to fortune: US newspaper heiress Patty Hearst was kidnapped by terrorists in 1974. She converted to their cause and took part in a bank robbery, for which she was later jailed AP

EXECUTIVES ABROAD KIDNAPPING

Your money or your life

Executives working abroad are increasingly being targeted by kidnappers, but security measures can be taken to reduce the risks, writes **Vanessa Houlder**

The worst year of Tom Hargrove's life began one September morning with a decision to take the scenic route to work. Less than halfway to the agricultural research station in Colombia where he worked, he was stopped at a roadblock by armed men in bandannas and ski masks.

They spotted that Texas-born Mr Hargrove was a *gringo*; worse, they became convinced he worked for the CIA, because an abbreviation on his identity card described his employer as CIAT. The guards, from a group of communist guerrillas called the Revolutionary Armed Forces of Colombia, forced him into the back of a pick-up truck and took him to a remote, inhospitable mountain region.

For 11 harrowing months, Mr Hargrove was kept in near isolation, while his desperate family negotiated with the kidnappers, who demanded an impossibly large ransom of $6m. Eventually, in August 1995, his family struck a deal and he walked free.

In recounting his story, Mr Hargrove, who has written a book and given talks about his ordeal, has drawn attention to a potential hazard of expatriate life that is often underestimated.

Mr Hargrove knew that Colombia was notorious for kidnapping. But his job, as an agricultural expert, was trying to improve the lot of the country's poorest farmers – also the stated goal of the guerrilla organisations. "My colleagues and I thought we were immune to kidnapping and other acts of terrorism," he admits.

Expatriate workers are often more vulnerable than they think, says Andre Pienaar, the European Regional Legal Counsel for Kroll Associates, a corporate security specialist. "People think, 'I am not that important or wealthy'. But in some parts of the world you can appear ostentatiously wealthy by wearing glasses or carrying a laptop."

The risks to expatriates are increasing. Mr Pienaar believes the number of kidnappings worldwide has doubled in five years.

Company executives are more at risk than formerly. The main targets, especially in South America, used to be farmers and wealthy landowners. But from the early 1990s, corporate executives began to attract more attention from kidnappers. Their perceived wealth, power, and influence has tended to drag them into local disputes, explains Mr Pienaar.

The dangers are spreading. In Central and South America, the riskiest countries are Colombia, followed by Mexico, Brazil, Guatemala, and Venezuela. In Asia, the worst affected area is the Philippines, although the threat is diminishing. South Africa, Yemen, Nigeria and Somalia are also deemed risky.

Serious problems are emerging in Russia and the Commonwealth of Independent States. The worst affected region is the northern Caucasus, where there were 800 kidnappings last year. Kazakhstan shows signs of becoming a danger zone, with 18 incidents in 1997, followed by 12 in the first quarter of 1998. The style of kidnapping varies between regions. In some countries, people are released quickly; in others, such as Colombia, the average length of incarceration is 11 to 14 months, and can last three years.

'People think they are not that wealthy. But in some countries you can appear ostentatiously wealthy by wearing glasses'

The size of ransoms also varies between countries, although demands for "mega ransoms" are becoming increasingly widespread. In recent years, some of the highest have included a $16.9m demand for a German businessman, and $18m for an Italian.

Although the final payment is often well short of the initial demand, ransoms are paid in a very high number of incidents, says Mr Pienaar. The fear of having to find such large sums has created a market for kidnap and ransom insurance. In the US, where it is most advanced, an estimated 60 per cent of the largest 1,000 multinationals have taken out cover, according to Diane Borden, assistant vice-president of the Crisis Management Division of AIG, an international insurer.

The existence of such policies is kept strictly confidential. If it becomes public for any reason, the policy is invariably cancelled.

Nonetheless, such policies are banned in some countries – for example, Italy and Germany – on the grounds that they encourage kidnapping. But official attempts to hinder the payment of ransoms tend to be ineffective and controversial. In Germany, insurers are hopeful the ban will soon be relaxed.

Insurance aside, few companies have the skill and experience to deal with hostage-takers. The risks of a botched negotiation include being forced to make multiple payments, paying a ransom with insufficient evidence that the victim is still alive, or channelling the money through a corrupt police force. In countries where the police are corrupt or inefficient, most families and employers use a security company to negotiate with the kidnappers. Most insurance policies go beyond simple indemnity against the cost of the ransom and include the assignment of a crisis management team.

Richard McCormick, senior managing director of Kroll Associates, which has a co-operation agreement with AIG, believes most kidnappings could be prevented. They typically happen when people visit the "wrong" part of a city or other no-go areas. He argues that people who go to high-risk areas should learn evasive driving tactics, how to anticipate a hijacking and how to spot when they are under surveillance.

Kidnappings are mostly planned, so it is relatively rare for an executive visiting a city for a few days to be abducted. However, Mr McCormick advises business people arriving at a strange airport to know the name of the person meeting them. In Lagos, visitors have been intercepted by abductors who copied their name from a placard held by the driver waiting to meet the flight.

Knowing about potential problems is sensible, but however well-prepared, it may be hard to eradicate the risk completely. In the Caucasus, several of the kidnapped foreign executives had their own armed escorts, who betrayed them.

As a veteran of 75 negotiations during the past four years, Mr McCormick attempts to be reassuring. Despite the immense mental pressure on kidnapped victims, it is rare for them to be physically mistreated. Most victims subsequently overcome the trauma.

Nonetheless, even when a kidnapping is swiftly resolved, the human cost is high. For anyone exposed to the threat, prevention is definitely better than cure.

CONCEPTS STRATEGY AND COMPETITION

Insight now, fad tomorrow

Tony Jackson is reminded that the terms strategy and competitiveness are relatively recent additions to the business vocabulary

The term "strategy" is so embedded in business thinking that one can forget how recently it got there. The root meaning of the word, the dictionary reminds us, is "command of an army". Its widespread use by managers, rather than generals, dates only from the 1960s.

Its evolution since is neatly traced by a recent book from one of the more reputable strategy specialists, the Boston Consulting Group*. The book consists mostly of short bulletins sent by the firm to its clients about strategic topics since the mid-1960s.

According to Carl Stern, joint editor of the book, early efforts dealt mainly with the emerging notion of competition.

"In the 1960s," he says, "competition didn't figure much. It was more a question of organisational efficiency and moving stuff out the door. If you were to read even a publication like the Financial Times in 1965, a whole vocabulary about competition was completely absent."

Odd though it sounds, Mr Stern seems quite right. Look at earlier management classics, such as Peter Drucker's *The Practice of Management* (1955) or Alfred Sloan's *My Years with General Motors* (1963). The concept of competition, like that of strategy overall, scarcely figures.

On reflection, this is not surprising. These were the years of post-war shortage, and there were more than enough customers to go round. The task of management was rather to get the most out of scarce resources.

In the 1960s, the balance of supply and demand started to tilt. As a result, Mr Stern says, "from the late 1960s to the early 1970s, the notion of competitive advantage absolutely captivated business leaders."

The other big theme of this period was resource allocation. This led to BCG's single most influential idea, the Boston matrix. Laid out in a typically terse three-page article by BCG's founder Bruce Henderson in 1970, this classed business units into stars, cash cows and so forth, and described how group cash flow should be allocated among them.

Next came the realisation that to compete effectively, it was necessary to define the market in more detailed and segmented terms. It also became apparent that competitive advantage had its limits.

"In the paper business, for instance," says Mr Stern, "the responsibility for technical innovation had passed to the engineering companies. The result was stalemate, and market share didn't help much. You had to find a way to differentiate yourself."

The next wave of strategy came in the early 1980s, with the advent of Japanese competition based not on volume, as in the 1970s, but on Toyota-style flexible manufacturing.

"A couple of my colleagues realised," Mr Stern says, "that this was a marketing revolution." That is, the Japanese could use lean manufacturing not only to reduce costs, but in order to respond faster to changes in the market.

That led to the notion of time-based competition, as described in an article from 1988. As Mr Stern remarks, it was a short step from there to the notion of re-engineering: for in order to make a business responsive, you must first change its processes.

From here, we are on more familiar ground. First came the over-use of re-engineering to cut costs. Then came the realisation that this was a finite and often damaging game, and a switch in emphasis to growth by means of innovation and globalisation.

So, where are we now? For Mr Stern, the important text is a 1997 article – reprinted in the book – by two BCG consultants, called *Strategy and the New Economics of Information*.

The theme has become increasingly familiar in recent months. The networked world is driving down the cost of information. That in turn, we are told, will cause radical change in the composition of whole industries and of the companies within them.

Thus, banks will find their retail business chipped away by software houses such as Intuit and Microsoft. Newspapers will have their economics undermined by the loss of classified advertising to electronic media. The links of the value chain will be taken apart and re-assembled in new industries.

During those 30 years, then, strategy has gone through plenty of fads and fashions. That raises an obvious question – one the book, understandably, is not at pains to answer. When strategic ideas fall from grace, is it because of changes in the business environment, or because they were plain wrong in the first place?

A bit of both, seems to be the answer. Take the best-known idea in the book, the Boston matrix. One prominent academic in the field, Andrew Campbell of the Ashridge School of Strategic Management, describes this as "the most damaging concept managers have been sold in the last 25 years".

His reasons are two-fold. First, it encouraged managers to think of corporations as closed internal markets for capital. If there was not enough cash to go round, value-adding projects could be starved, rather than funded from outside.

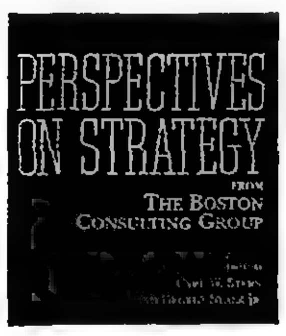
Second, it encouraged the idea that different types of business could be managed in the same way. Thus, it prolonged the life of the conglomerate principle. It also created a window for the likes of Hanson and KKR, which specialised in running cash cows rather than growth businesses.

But after all, the matrix addressed the business realities of its day. In the 1960s, capital was still a scarce resource, and sprawling conglomerates abounded.

Now, capital is in glut and focus is all. Perhaps the worst that can be said for the matrix is that, in giving managers an elegant formula to fit the old world, it slowed their response to the new.

For today's managers, the risk may be the opposite. The more over-excited responses to the internet, in particular, may exaggerate the speed and the scope of change.

But that is one of the joys of strategy. The old orthodoxies may bite the dust, but there is sure to be another one along in a minute.



'In the 1960s competition didn't figure much. If you were to read even a publication like the Financial Times in 1965, a whole vocabulary about competition was completely absent'

Carl Stern, joint author of Perspectives on Strategy

**Perspectives on Strategy, by Carl W Stern and George Stalk Jr. John Wiley & Sons. 317pp, £19.95, $29.95 (US). Available from FT Bookshop, FreeCall 0500 500 635 (UK) or +44 181 324 5511 (outside the UK). Free p&p in UK*

BUSINESS & THE LAW PARTNERSHIPS

Alliances across the Atlantic

Robert Rice examines American firms' partnership arrangements with English firms

In their rush to build dual US and English law capability, many of the US law firms with ambitions in the UK have chosen to form multinational partnerships *(MNPs)* by hiring English solicitors in ones and twos.

Very few US firms have chosen the route of forming a MNP with an entire English law firm. That may be largely because the history of transatlantic strategic alliances is dotted with failures. But last year Minneapolis/St Paul-based Faegre & Benson decided to buck the trend by forming a MNP with the London niche commercial law firm, *Hobson* Audley *Hopkins &* Wood.

What made the alliance the more surprising was that two years earlier Faegre & Benson's first attempt at an MNP had hit the headlines for all the wrong reasons when the two English partners involved were arrested on suspicion of involvement in the alleged laundering of £32m of Russian mafia money. Although the partners were released without charge and were never prosecuted, the four-month-old MNP was holed below the waterline.

For Scott James, Faegre's *resident London partner.* It was a chastening experience. It took several months to unbundle the MNP but by *August 1996 the firm* was ready to dip its toe in the water again in its search for English law capacity.

This time it decided to look for an MNP with another firm. After preliminary discussions with several City law firms it settled on Hobson Audley and in August 1997, Faegre Benson Hobson Audley was born.

At first sight it looks like a match of unequals. Faegre & Benson *is a 275-lawyer* Midwestern commercial law firm with offices in Minneapolis, Denver, Des Moines, Frankfurt and London and Hobson Audley is a 35-lawyer firm working from one office in London. But Mr James insists the alliance is neither a takeover nor a merger.

"Our clients are not doing high profile project finance or international capital markets, they're doing mergers and acquisitions and general corporate and commercial work. Our goal was to enhance our ability to serve our client base internationally by looking for a firm with a *similar work profile,"* he says.

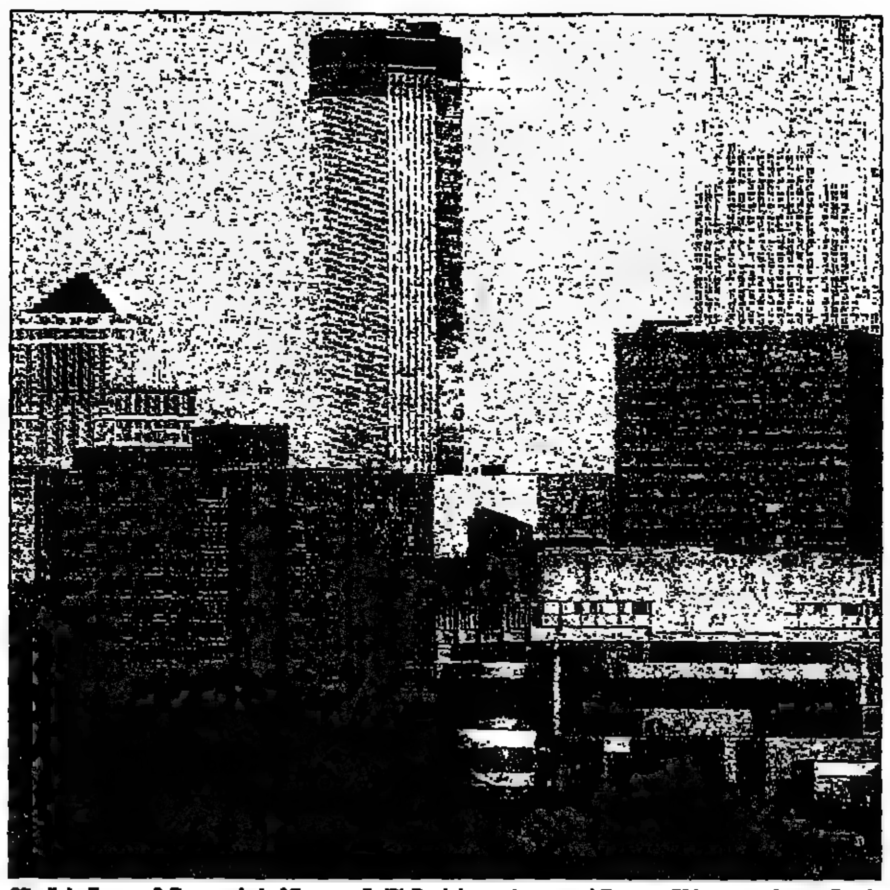
Faegre has been in London since 1985 and in the past when it had English law matters for a US client it would farm the work out to *various English law firms.* As the 1980s dragged on those ad hoc arrangements became increasingly unsatisfactory.

"There was no consistency," he says. "We didn't lose any clients but there was *no long-term benefit for* Faegre & Benson. And then referral relationships died with the recession. So we felt by changing the mix so that English law services were provided by the Faegre Benson Hobson Audley MNP, *we would get our* name up there and clients would think of us differently in the international *arena."*

Minneapolis is home to several Fortune 500 companies particularly in the medical devices *and* computer hardware and software industries, many of which have strong international businesses.

"The idea was that by enhancing our international profile we would win more domestic business in the Mid-western catchment area," he adds."

For Hobson Audley the aim was to win more US



City link: Faegre & Benson is in Minneapolis/St Paul, home to several Fortune 500 companies Corbis

legal work. Ten months later, both sides are happy *with the way things are* working out. "We've already found that collectively we're getting work that we wouldn't have got previously," he says.

A good example of that is *the recent $67m sale of* 4-Sight, a UK network software producer to WAM!NET, a fast-growing privately held *US provider of network services* for the graphic communications market. 4-Sight was already a client of Mr *James but the company* used another firm, Hardwick Stallards for English law advice.

The 4-Sight shareholders, both individuals and English and US venture capital investors, were being offered *a large proportion of the* $67m price in shares of WAM!NET and they needed urgent advice on what they *would be getting for their* 4-Sight shares.

4-Sight wanted Faegre & Benson to do the US securities and due *diligence* work on the deal with Hardwick Stallards handling the English end of the sale.

In effect, there were *two* acquisitions procedures taking place simultaneously, one for the sale of the 4-Sight shares and another for the purchase of the WAM!NET shares by the *4-Sight vendors.*

"By the time we brought in the lawyers, we were on the verge of final negotiations with WAM!NET and its advisers. We had to assemble *quickly a team that* could handle both the sale of our shares and advise us fully on what we would be *receiving from WAM!NET,"* says David Townend, managing director of 4-Sight.

> **It is too early to declare it a success, but the signs are promising**

In the end, Mr James managed to persuade Mr Townend of the benefits of the MNP handling all aspects of *the deal and it was agreed* that Hobson Audley would work alongside Hardwick Stallards on the English end *of the deal.*

Mr James said the ability to provide appropriate US and English legal expertise *swiftly was made altogether* easier as a result of the integration of the two firms in *the MNP. In particular,* e-mail – by which the documents were created and worked on – was crucial in enabling the deal to be closed quickly, he said.

And there have been other deals. The MNP has completed three mergers and acquisitions, dealt with two *financial services regulatory* matters, about 10 employment issues and even handled some litigation.

In April, Roger Hopkins successfully obtained a mareva injunction in the English High Court freezing the *English assets of a US defendant* in advance of a decision in arbitration proceeding brought by one *of Faegre's clients* in Iowa.

It is too early to declare it an unqualified success, but *the signs are promising,* Mr James says.

"Faegre & Benson has had more English law work in *the past year than in any* one year in the past 12. The upcurve in English work coming out of our US offices *has been very apparent in* recent years, so the timing of the MNP could not have been better," *he says.*

Airline state aid ruling overturned

European court

The European Court of First Instance last week overturned the European Commission decision authorising *state aid to Air France,* the French carrier. The Court said the decision was inadequately reasoned and should be annulled.

In March 1991, France notified the Commission of its plan to inject FFr20bn into *Air France. The notification* was accompanied by a restructuring plan.

The Commission concluded that *the capital* was state aid which distorted competition in the EU and the European Economic Area, and was *in principle* contrary to the Treaty of Rome and the EEA Agreement.

However, the Commission *said the aid fell within the* exception of aid designed to facilitate the development of certain economic activities, so long as it did not adversely affect trading conditions to a degree contrary to the common interest.

In its decision the Commission accepted that a genuine restructuring of Air France served the common interest by contributing to the development of European air transport and improving Air France's competitiveness.

In the light of 16 commitments made by the French government, the Commission *also concluded* that the amount of aid was not excessive for the restructuring and would not adversely *affect trading conditions.*

British Airways and other airlines applied to the Court of First Instance to have the decision annulled. The UK, Denmark, Sweden and Norway intervened in support. France and Air France supported the Commission.

The Court said the case *fell into two parts. The first* concerned the argument that the Commission had broken the rules on the administrative procedure under the *state aid provisions of the* treaty and EEA Agreement.

> **The Commission accepted that a restructuring of Air France served the common interest by . . . development of European air transport**

The Court rejected the claim that the Commission had failed to obtain sufficient information or to provide the parties concerned with sufficient information.

It also rejected complaints about the failure to consult independent experts and verify information provided by France and Air France.

The second part concerned *arguments that the Commission* had committed errors of assessment and errors of law. The Court accepted only two of the grounds put *forward by the applicants.*

The first concerned the financing of the purchase of 17 new aircraft by Air France. The Court said the Commission's statement of reasons had to disclose its *reasoning in a clear and* unequivocal way, so that it could exercise its supervisory *jurisdiction. Competitor* companies were also entitled to reasons, so they could defend their rights.

The applicants argued the purchase of 17 new aircraft was a fleet modernisation cost which formed part *of normal operating* costs.

The Court stressed that in principle the EU was *opposed to all operating aid* intended to finance routine modernisation.

The second ground concerned *the competitive* situation on air routes outside the EU and the EEA. The Court said the Commission had not *verified* the impact which the aid would have on air routes outside the EEA.

T-371/94 and T-394/94: British Airways and others v Commission, CFI 2CH. June 25 1998.

BRICK COURT CHAMBERS, BRUSSELS

PEOPLE ON THE MOVE

Setback for Sunrise as Ivanovitch walks out

Hans Ivanovitch has resigned as chief executive of Sunrise Communications – the second serious setback in three *months for a company which* was regarded as best placed to challenge the lucrative *monopoly* of Swisscom, Switzerland's state-owned telecommunications company.

Ivanovitch joined Sunrise in March 1997 *from* British Telecommunications, where he had been general manager *for central Europe. BT, along* with Tele Danmark, owns 49 per cent of Sunrise, and Ivanovitch's appointment as *chief executive underlined* BT's strong links to a group which is majority owned by *three Swiss investors,* Swiss Federal Railways (SBB), UBS, and the Migros supermarket chain.

Sunrise, *which has more* than 100,000 customers, wants to win a 15 per cent *share of the newly liberalised* Swiss telecoms market. But its failure to win one of two new mobile phone licences in *April was a severe setback* since mobile telephony is growing far more quickly than *fixed* wire telephony.

Sunrise said Ivanovitch was stepping down for "professional and personal *reasons". However, there have* been reports in the Swiss media that his departure followed a clash over mobile *phone strategy with Josef* Egger, Sunrise's chairman who is also SBB's head of information technology.

One option would be for Sunrise to merge with the Orange consortium which won one of the mobile licences. *That would strengthen* Sunrise's competitive position but would mean that BT would be a partner with one *of its fiercest* UK *competitors.*

There has also been speculation that UBS is under pressure to dispose of its *stake in Sunrise to avoid any* conflict of interest associated with UBS's role as joint global co-ordinator of the initial *public offering of Swisscom.*
William Hall

Top Compaq role for McNally

Joe McNally (below) has *been appointed a* vice-president of Compaq Computer, the world's leading personal computer maker, and *managing director of the US* group's UK business following the recent merger with Digital Equipment.

McNally set up Compaq's UK business in 1984 and has built it into the group's largest market in Europe. In his new role, he will be responsible for the group's expanded sales, marketing and service operations in the UK.

McNally: Compaq promotion

His appointment resolves speculation about whether he or **Chris Conway**, his UK counterpart at Digital, would emerge as managing director of the combined operations.

Conway, *who was* vice-president and territory general manager for Digital *UK and Ireland,* was widely credited with restructuring Digital's UK and Irish operations during the past few *years when the group* was going through a difficult transition.

He has now been appointed vice-president of services and solutions for Compaq's European, Middle East and Africa division.

Before joining Compaq, McNally spent more than 14 *years with mainframe* computer groups ICL and Honeywell.
Paul Taylor

Burnell steps up at Thomson

Thomson Travel Group, the package holiday company *floated last month in London* by Thomson Corporation, the Canadian publishing group, *has appointed* **Roger Burnell**, 48, to the new position of chief operating officer.

Burnell, who joined *Thomson in 1975, will be* replaced as managing director of Britannia Airways, Thomson's charter airline, by ***Peter Buckingham***, *currently* Britannia Airways' marketing and operations director.

Burnell will be responsible *for the operations of all* Thomson's businesses, including Thomson Holidays, Britannia Airways, travel *agency chain* Lunn Poly and Holiday Cottages Group in the UK, along with the recently-acquired Fritidsresor *Nordic tour operation and* Budget Travel in Ireland.

The company said Burnell's appointment would allow Paul *Brett, chief executive, more* time to develop the group. It said Brett would work closely with **Charles Newbold**, *currently managing director of* Thomson International, to accelerate Thomson's international expansion.

Newbold, a former managing director of Thomson tour operations, has been appointed to a new role as *group development director,* involving working full-time on acquisitions in the UK, as well as the rest of Europe.

Thomson is the largest package holiday company in the UK but lags Airtours, the second largest group, *internationally.*
Scheherazade Daneshkhu

New brief for former minister

Outgoing Hungarian finance *minister* **Peter Medgyessy** didn't have to wait long for a new job after the opposition victory in last month's general election. Medgyessy, 58, is to be chairman of Budapest-based Inter Europa Bank, which is controlled by Spanish and Italian banks. He will be responsible for strategic development.

His latest stint at the finance ministry was his second: in between times, he was chief executive at the *Hungarian branch of Paribas* before moving to head the Hungarian Development Bank.

Medgyessy said he hoped to have more time for other pursuits, including hunting, collecting antique books, and attending concerts of classical music.
Kester Eddy

Moving places

- Professional services firm J&H MARSH & MCLENNAN has appointed **Allen Nicely** as general manager of its new Dubai office. Nicely will manage the firm's interests *throughout the Middle East.*
- ANGLO AMERICAN CORPORATION has appointed **Gerrit Thomas Ferreira** as a non-executive director.
- Four new directors have been elected to the 25-member board of SWIFT, the bank-owned global *financial messaging system.* They are **Stephen Zimmermann** of Swiss Bank Corporation, **Fritz Klein** of Credit Suisse First Boston, **Alessandro Lanteri** of Cariverona Banca and ***Jong-Sang Lee*** of Korea Exchange Bank.
- **Michael Proffitt** has been named head of the new *industry solutions unit of* DANZAS, the worldwide logistics company.
- CHASE MANHATTAN CORPORATION has appointed **Alessandro Mitrovich** as been appointed *senior country officer for Italy.* He replaces **Federico Imbert** who has been appointed Chase's global private *banking executive for Europe* and Africa. Mitrovich joined Chase Rome in 1986.
- MITSUBISHI MATERIALS CORPORATION *of Japan* has appointed **C.P. Brauch** as chairman and chief executive of its US subsidiary, *Mitsubishi Materials USA* Corporation in New York. Brauch was formerly president and chief executive of *International Strategies.* **Hiroshi Yao** has been appointed president of Mitsubishi Materials USA. Yao *was previously assistant to* the managing director for advanced alloys and machinery at the corporate *head offices in Tokyo.*
- Corporate and financial communications firm DEWE ROGERSON INC has *appointed* **Fielding Dupuy** *as* media director for North American Group. Prior to joining Dewe Rogerson, *Dupuy was president* and co-founder of Manhattan Media Associates, a public relations firm. **Owen Blicksilver**, *48, is joining the* firm as an executive vice-president. He was founder and chief executive of *Principal Communications, a* division of GCI Group.
- **Fernando Losada** has joined ING BARINGS as *vice-president* and *senior* economist for Latin America. He was previously an economist with the New York *-based Weston Group* merchant bank.
- **Ken Forster**, UK chairman and deputy group managing director *of SE Labels,* has been appointed chairman of Norwegian parent company *SE LABELS ASA. The group,* which has production facilities in the UK, Norway, Sweden and Denmark, is one of the *largest label producers* in Europe.
- GRUNDIG ESPANA has appointed **Francisco Javier Freijo** as *managing director.* He joined Grundig in 1996.

ARGENTINA V ENGLAND TODAY'S ENCOUNTER IS CHARGED WITH EMOTION

Language of a grudge match

Jimmy Burns and Marcela Mora y Araujo on the fiery history between the two countries

Jingoism rules: how the British popular press sees tonight's game

Few World Cup fixtures are overladen with such political and emotional baggage as tonight's match between England and Argentina.

To the English hooligan collective subconscious, the word "Argie" – so loosely used in yesterday's tabloid coverage – is only too resonant of the war the two countries fought 16 years ago. During the Falklands conflict it was "our boys" – the British soldiers – against the "Argies", the rag tag conscript army that could only be humiliated.

"Revenge is a horrible word," said Glenn Hoddle in a press conference at the weekend, but the English manager's overall message has contributed to the language of the grudge match just when the enduring embarrassment of English hooligan culture seems sadly only too evident in France.

It was one of Hoddle's predecessors – Sir Alf Ramsey – who famously called the Argentines "animals" during the 1966 World Cup. The then Argentine captain, Antonio Rattin, was sent off for fouling an English player, but spent 20 minutes defiantly making the long circuit of Wembley, exchanging insults with the crowd.

That incident ingrained in English football memory forever that Argentina, on and off the pitch, represents dirty play. Hoddle may have stayed silent on the Falklands, but he has perhaps unwittingly done his best to stir up the English perception of the Argentine as some kind of secondary citizen of the world of football.

He has put much emphasis on the first goal scored by Argentina against England in the World Cup in Mexico in 1986, the last football encounter between these two countries: the infamous "Hand of God" goal, from Diego Maradona. Hoddle, a player in that English team, was close to the goal when it was scored and has never had any doubts that it should have been disallowed. "It was a sickening blow on the day. This game will give us a chance to redress the balance," said Hoddle.

Hoddle has won some kudos with English fans who a few days ago were baying for his blood over his team selection. The Sun newspaper paid jingoistic tribute by urging readers to "help England stuff the Argies" by holding up a cut-out of an oversized hand bearing Hoddle's picture during tonight's match at Saint-Etienne.

The England coach has paid tribute to Maradona, describing him as "better than anybody who has ever played on this planet". But it would have been nobler of him to recall the genius that showed in Maradona's second goal on that day in 1986, and which is still regarded as one of the best ever.

The Argentines themselves find it hard to understand some of the commentary emanating from England – a country that many of them equate somewhat romantically with the notion of fair play.

In recent days, the Argentine media has taken its cue from the death last week of the footballer Ernest Grillo, to muse on other magical football moments involving both countries. In 1953 Grillo scored a legendary goal in a friendly between England and Argentina.

Yesterday, Argentine journalists were having to concede that tonight's game is as emotionally charged as that last encounter. Who can forget the English tabloid headlines of 1986: "Mexico alerts 5,000 troops" screamed one, "Argies here we come," another. For its part, the populist Argentine newspaper Cronica declared: "We're coming to get you pirates".

And yet how different the pre-game attitude of the then England manager, Bobby Robson. Not a mention of redressing balances, as Hoddle puts it. As he recorded in his diary, Robson gathered his players and told them not to stir the pot. "The same went for me too. We were here to play football and I am a manager, not a politician," Robson wrote.

The bulk of those playing football for England and Argentina tonight were children in 1982, and still at school in 1986. Among footballers, past and present of both countries, there remains a great deal of mutual respect.

The England and Argentine squads are no longer as distinct stylistically and tactically from each other as they once were, and no one equals Maradona on either side. But it should be a fascinating game none the less, with a good sampling of flair players on both sides, prepared to create and chase in equal measure.

In nine games played against each other since 1953, England have won three to Argentina's two. Glenn Hoddle is hoping that his team will maintain the form they found against Colombia and win the victory denied him in 1986. The Argentines go into this game with the confidence of the one team not to have conceded a goal in the tournament, and of being considered as the most dangerous potential adversary by Brazil's Ronaldo.

AFRICA HOPES FADE WITH DEFEAT OF NIGERIA

Lack of vision holds back players

Mark Gleeson on how troubles off the field are casting doubt on football's 'new frontier'

Down and out: despondency for Nigeria's Jay-Jay Okocha AP

Long faces and drooping shoulders in Paris yesterday were starkly at odds with the jaunty spring in the step of Nigeria before they tumbled out of France 98, hammered 4-1 by Denmark on Sunday.

The brushing aside of Africa's last representatives is an embarrassing defeat for a continent that many had tipped to be the new frontier of football excellence in the next century. Four of Africa's five World Cup finalists failed to make it past the first round – admittedly, Cameroon and Morocco were hard done-by in controversial refereeing. But Nigeria's inability to clinch their expected quarter-final berth casts new doubt on just where football in Africa is going.

Sunday's result is sure to set off a round of recriminations in the populous west African nation, which prides itself on its ability to compete at the highest level. "With all the talent in our team, it's a disaster that we lost a match like that," said Victor Ikpeba, African Footballer of the Year. He blamed the defence for letting through two quick goals that put the Super Eagles on the back foot for the rest of the game. Defender Taribo West agreed: "We committed too many errors and it was too difficult to come back."

But it would be simplistic to fall back on the supposed naivety of the African game to explain the failures in France. Outsiders still drag out the clichés – Africans are "great dribblers, can't shoot", "devastating in attack, leaky in defence", "undisciplined and temperamental" or "tactically immature". But much of the criticism is way off the mark.

With the huge diaspora of African talent to Europe, there is little to back the notion that African players are out of touch with the demands of physical strength and tactical excellence in the modern game. There is no shortage of either in Africa, as was shown in France, and can be seen each week in the leading leagues of Europe.

The best African players are at the world's best clubs, exposed to the best coaching and conditions.

What is lacking in Africa, however, is organisation and vision, not so much on the field as off it. Africa remains a continent with few resources; and although soccer can claim to be an opiate of the masses, not much is being done to feed the popular habit.

Nigeria are a classic case. Their administrative and coaching resources are so far behind their playing talent and ability that it is no surprise that the side have twice failed to reach the World Cup quarter-finals.

Soccer officials come and go in Nigeria as frequently as coaches. Political patronage puts them into place and failure to satisfy popular whim takes them out of office just as quickly. The short tenure leads to a high level of meddling, as officials attempt to ensure profitable gain.

Meanwhile, the lack of stability means neither Nigeria, nor most other African countries, have developed the forward looking vision and planning needed for long-term success.

Abuse of football's resources is commonplace in Africa. It is a continuing plague that keeps retarding African football.

As West pointed out after their defeat on Sunday: "There are so many officials hanging around doing nothing, just getting in the way and only worrying about their pockets. Only when we get rid of them will we be able to play properly."

But Sani Toro, the secretary of the Nigerian Football Association, defended his officials. He branded the team a "bunch of moneymongers" and accused them of holding officials to ransom before the second-round defeat. Toro claimed the players had written to the NFA before the match demanding an "incentive fee" of $10,000 before they would play.

GERMANY 2
MEXICO 1

Germany land late counter punches

By Peter Aspden

An all-too familiar story took its latest twist in Montpellier yesterday when Germany came back from behind to beat Mexico and progress to the quarter-finals.

Goals from the German strikers Jürgen Klinsmann and Oliver Bierhoff in the final 15 minutes swung a game that seemed to have drifted beyond this ageing, charmless side. But it is an axiom of World Cup football that there is no such thing as a German side that gives up, and so it proved again.

The game will be remembered with particular bitterness by the fleet-footed Mexican striker Luis Hernandez, who scored a classy individual goal, his fourth of the tournament, to open the scoring just after half-time. But he scorned a golden opportunity to put his side 2-0 up 15 minutes later.

A superb solo run by substitute Jesus Arellano ended with Lothar Matthäus forcing his own goalkeeper to save against the post. Cuauhtemoc Blanco was quickest to react, and crossed instantly for Hernandez, but he shot straight at a grateful Andreas Kopke. The miss proved the turning point of this absorbing contest.

Although Germany could not find any rhythm or fluency in midfield, it seemed only a matter of time before one of their frequently hoisted crosses towards their powerful forwards paid off. Sadly, the equaliser came from an elementary error by the Mexican centre back Raul Lara who miscontrolled Dietmar Hamann's aimless ball into the box, and Klinsmann pounced to drive the ball past Jorge Campos.

The German winner was a tidier affair altogether: this time substitute Ulf Kirsten crossed for Bierhoff to drive an unstoppable header into the near corner with just four minutes to go. Even then, this enterprising Mexican side came back: Blanco once more found space on the left and curled the ball in for Hernandez to head straight at Kopke in injury time. It was their last chance.

An entertaining first half saw German strength pitted against Mexican nimbleness, with Matthäus, stroking the ball into space and prompting his team-mates forward, the pick of the German side. Mexico were by no means outclassed. Indeed Kopke was embarrassed by a sweetly struck volley from Marcelino Bernal which he could not hold; but the sluggish response of the Mexican forwards spared the blushes of the German keeper.

It was not until the half-hour mark that the game really sprang into life: first Michael Tarnat hit a vicious shot that the diminutive, and impressive Jorge Campos saved superbly, not knowing that Bierhoff was offside. Then Thomas Hässler crossed perfectly to the unmarked Bierhoff, but AC Milan's latest acquisition inexplicably thumped his header against the crossbar.

FRANCE 98 DIGEST

TODAY'S GAMES

Bleached Romanians look to show off their style

Romania meet Croatia in Bordeaux this afternoon for a place in the final eight, and while it may not be the most mouth-watering fixture of the second round, the game should not lack for good football with the likes of Gheorghe Hagi, Adrian Ilie (left), Davor Suker and Robert Prosinecki parading their talents. Neither side is a clear favourite to win, but Romania's form in the opening games – seven points from victories over England and Colombia and a draw with Tunisia – suggests they are the more in-form team. Croatia lost to the only outstanding side in their group, Argentina, and failed to impress in wins against World Cup finals debutants Japan and Jamaica.

So far Croatia have been under-achievers – good on paper, not so good on grass. Having qualified for France 98 by the back-door entrance of the play-offs, they have yet to display the form that saw them emerge as one of the best teams in the 1996 European Championship before losing unluckily to Germany in the quarter-finals. Suker, their star striker, has two goals in the World Cup so far, but does not look at his best.

In defence, English Premiership stalwarts Igor Stimac and Slaven Bilic provide the Croatian back line with much-needed steel, but they are too easily caught square. Zvonimir Boban, the captain, missed the first two games through injury and is short of match fitness. Prosinecki, at least, looks in good form. Yet the feeling with Croatia is that until now the sum has not added up to the value of the parts.

In contrast, Romania have performed more like a team in France 98. They are also a side who have acquired the habit of not losing games that matter. Since their disappointing appearance in Euro 96, the Romanians have not been beaten in a competitive (i.e., non-friendly) match. Their defeat of a more fancied English team in Toulouse last week was built on strengths developed during this impressive run: a solid, mobile defence epitomised by the excellent Iulian Filipescu; an experienced, imaginative midfield anchored by the indomitable Hagi; and an in-form strike force in the shape of the hugely talented Ilie and Viorel Moldovan, fresh from an unhappy season at Coventry City. They also have one of the best attacking defenders in football in Chelsea's Dan Petrescu, whose winning goal against England was the perfect illustration of the wing-back's art.

Many had expected the Romanians to be undermined by in-fighting and jealousies. But their new-found togetherness was illustrated by the players' decision before the game against Tunisia to bleach their hair in a display of follicle solidarity.

Patrick Harverson

- ROMANIA V CROATIA, 16.30*, BORDEAUX
- ENGLAND V ARGENTINA, 21.00, SAINT-ETIENNE

*Local kick-off times (GMT + 2 hours). One hour earlier in UK.

IN BRIEF

US coach calls it a day

Steve Sampson of the US yesterday became the fifth coach to part company with his team in the wake of World Cup failure. Sampson, 41, resigned after being in charge of the US squad since August 1995. The side played badly in France and he was publicly criticised by senior members of the squad. Cha Bum-kun of South Korea, Carlos Alberto Parreira of Saudi Arabia and Henry Kasperczak of Tunisia have already been sacked, while Bulgaria's Hristo Bonev resigned.

- German border police detained six suspected soccer hooligans, apparently bound for Germany's game against Mexico in Montpellier yesterday. The German authorities have been on alert to prevent known troublemakers from going to the World Cup after a French gendarme was beaten nearly to death on June 21 in Lens. More British police arrived in Saint-Etienne yesterday to act as hooligan spotters in the security operation surrounding today's game between England and Argentina.
- British sports minister Tony Banks called for Fifa to hold an inquiry into the official ticket allocation of only 2,049 for England fans for tonight's game against Argentina.
- Dunga, the 34-year-old Brazilian captain, said he plans to retire from international football after the World Cup.
- The official France 98 web site (http://www.france98.com) has broken through the 1bn hits barrier, in just over a year of operation. A record 68m hits were recorded last Friday. Some 10m individual users are recorded as having accessed the site.

NUMBERS SO FAR

Goals total	141	Sendings off	16
Bookings	203	Penalties	13
Leading goalscorer			Christian Vieri (Italy) 5

For latest World Cup news
www.FT.com/worldcup98

هكذا من الاحل

SCULPTURE WILLIAM TURNBULL AND REMBRANDT BUGATTI

Enigmatic images

Of all our senior sculptors, the Scotsman William Turnbull, now 76, is as distinguished as any. Yet for all his his long and regular record of exhibitions both at home and abroad, and the fair scope of his representation in collections around the world, he is not as celebrated as he should be. That list of public collections reads more as a round of discriminating applause than a thunderous acclamation – nothing in New York's Museum of Modern Art, in New York, nothing at all in France or Italy, The Netherlands, Scandinavia, Japan, South America.

The problem is that the very virtues in the work which give it its distinctive quality may operate to its disadvantage in the shorter term – reticence, simplicity, ambiguity. For Turnbull's sculpture is quiet, almost Trappist stuff, with nothing to it of superficial cleverness or see-here histrionics.

We have to come to it in its own time, and on its own terms, take it or leave it, just as we must with any strange and silent standing-stone, minding its own business in the middle of a field, worn to an essential minimalism by the winds and weathers of the ages. And this is the source, at once formal and imaginative, that he still taps, just as he was those 50 years ago, a young artist fresh from the Slade and living in Paris.

"I have often in many ways been trying not to do it consistently", he tells us. "The thing is that the consistency seems to have happened by itself. It's not something I make an effort at. But there are certainly things I see, some kind of object that acts as a trigger. That trigger persists, it doesn't go away..." These imaginative, creative triggers include cycladic heads, figurines, grave goods and votive offerings; axes and arrow heads; archaic helmets and horse armour; totems, grave markers and Celtic crosses; fragments of Greek sculpture; cup-and-ring marks; tombs and megaliths. They strike a note which resonates deep in our collective cultural experience, almost beyond memory.

But, far from disquieting, Turnbull's objects are curiously reassuring in their enigmatic, impassive self-containment. His human heads are reduced to an essential ovoid, with only the slightest dot, scratch, ridge or swelling to hint at eye or nose or mouth, his horses' heads no more than an inclined plane set upon a wedge for neck, with only the barest tilt for the nostrils. Yet for all such formal simplicity, each registers for what it is, a monument, an image and a symbol.

In Bugatti's Leopard there is more than a hint of the working of Turnbull's cycladic masks and faces

Every surface is worked and modelled with the utmost care, now rubbed and smooth, now raised and abraded, now scraped and scored. His "Aphrodite" (1984), founded upon the Louvre's Hera of Samos, stands before us as two basic abstract elements, a totemic ball of bronze poised delicately upon a slender column. The arms of "Source" (1992), half tribal deity, half celtic cross, reach out to embrace us. The several "Venus Blades" (1989) balance on their points, at once ambiguously abstracted female clefts and grounded weapons.

Every item is beautifully made – and its whole being and presence, its whole point, is of the thing achieved under the hand of the artist. Forget Young British Artists for the moment. This has been the summer of their masters, and it will see no better, nor more radical or beautiful a show than this.

★

To go straight from such work, not just to figurative, but to animalier sculpture of the turn of the century, may seem quite a jump, but with the work of Rembrandt Bugatti, brother of Enzo, designer of the eponymous motor-car, it proves both right and easy. For with all the obvious differences of imagery and interest, the apparent abstraction of the one and the literal figuration of the other, what we find is a close sympathy of actual effort.

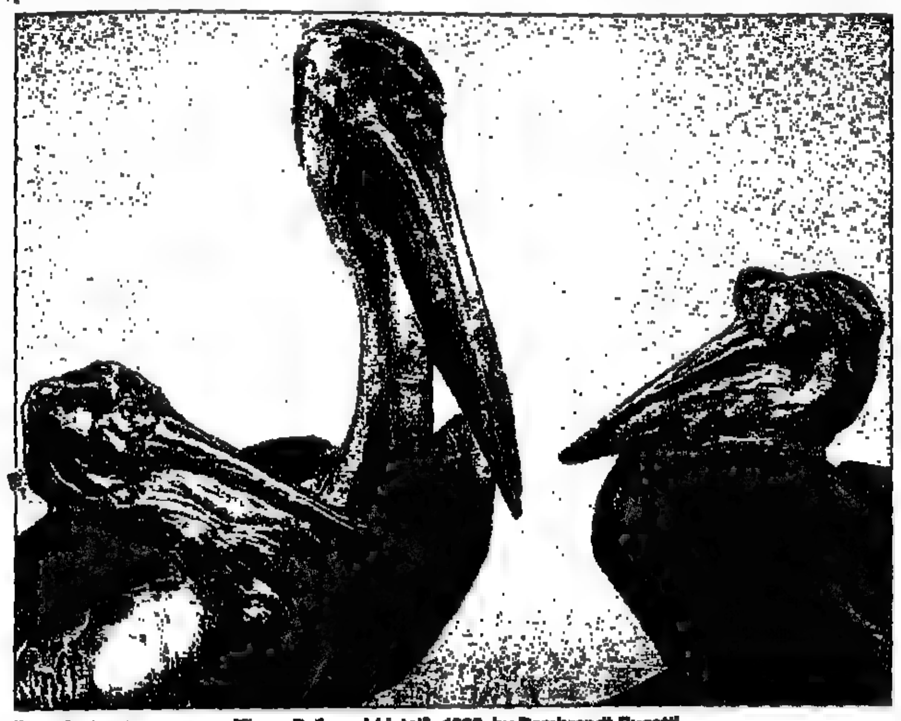
The quality of modelling is common to both, not just in practice but in accomplishment, and in the reductive virtuosity of the head of Bugatti's Leopard, for example, there is something more than a hint of the working of Turnbull's cycladic masks and faces.

There is too, in Bugatti, a remarkable and radical formal adventurousness to the work, in the disposition of his beasts, in their gestures, and especially in the composition of particular groups. His conference of pelicans, for example, a lion and lioness, two boar, are all as formally inventive as they are persuasive. His two tapirs rubbing heads together are fused by a flurry of central activity into a single sculptural entity of a wonderfully satisfying simplicity.

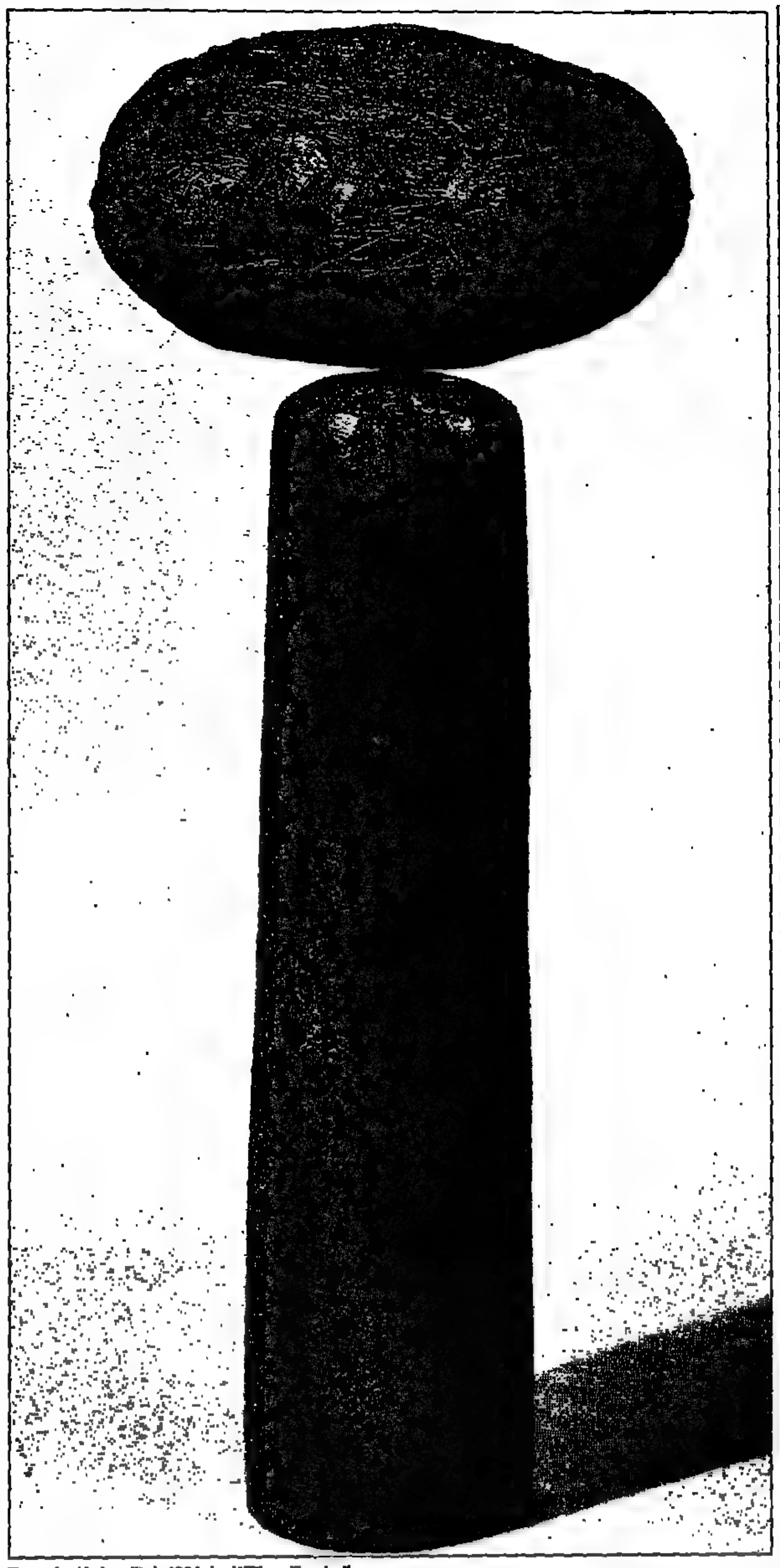
But most of all Bugatti's quality as an artist rests upon his extraordinary technique, at once swift and crisp, graphic and authoritative, each creature beautifully observed yet almost abstract in its final formal disposition. There is nothing quite like a Bugatti.

William Packer

William Turnbull – sculpture and paintings: Waddington Galleries, Cork Street, London W1 until July 18. Rembrandt Bugatti – bronze sculptures: The Sladmore Gallery, Bruton Place, London W1, until July 24.



Formal adventurousness: 'Three Pelicans' (detail), 1906, by Rembrandt Bugatti



Totemic: 'Aphrodite', 1984, by William Turnbull

THEATRE

Double Dutch bill

The critic protagonist of Gerardjan Rijnders' *Buff* spends the entire play damning every show he has ever seen, and in particular the one from which he has just returned, wishing he could see real drama onstage, while he is oblivious to the fact that around him, almost wordlessly, his wife is crawling into a sherry bottle, his son is crawling into a syringe and thence into his own mother's pants, and ultimately strangling the poor sozzled woman and topping himself. All the while, Buff yearns at length and volume for reality, but cannot see it happening just beyond his metaphorical pulpit.

The blackly hilarious *Buff*, dating from 1992, is the second of two plays presented (on separate bills but in the same evening) by Toneelgroep Amsterdam, who have rightly been lauded on their British visit (and not simply to prove that we scribblers can take a joke. The very name "Buff" in Dutch is *Liefhebber*, the name of a prominent critic).

The company tackles 'Buff', a blackly hilarious comedy, and Pinter's 'Ashes to Ashes'

Titus Muizelaar, who plays the rain-coated ranter with an accent as heavy as his agenda, also directs the first-house piece, Pinter's *Ashes To Ashes* (performed in Dutch with surtitles). Toneelgroep's standing may be gauged from the fact that the playwright had earlier granted them permission to stage the play before his own "premiere" London production in 1996; it is abundantly clear that his trust in them was not misplaced.

As Devlin questions Rebecca about the more squalid minutiae of her past, she alternately teases and blocks him with anecdotes which, did he but realise it, are infinitely more revealing and harrowing. *Ashes To Ashes* is the play in which Pinter melded his political concerns with his acuity at depicting sexual non-communication, and it is given a fine presentation here.

Pierre Bokma's Devlin is well-meaning, but his complacency runs too deep for him ever truly to comprehend what he is being told. As Rebecca, Lineke Rijxman brilliantly erects a barrier of ice which both walls off the true depth of the character's pain and fails properly to conceal it. After a performance of such masterly control, her ineffectually fluttering bourgeois dipso in *Buff* must come as light relief to her.

Ian Shuttleworth

At the Riverside Studios, London W6.

From Russia with drama

THEATRE

ALASTAIR MACAULAY

The Possessed
Barbican Theatre, London EC2

The greatest acting in the world? It often seems that way when watching the Maly Drama Theatre of St Petersburg in Lev Dodin's three-part adaptation of Dostoyevsky's *The Possessed*. London contains a disproportionate quantity of the world's best actors, but these Petersburgers are a lesson to us all. Economical and compelling, theirs is acting both as a noble craft and as a humble art, devoted to a cause larger than themselves.

I have passionately admired the Maly actors in other productions; but they are their most extraordinary in *The Possessed* because Dostoyevsky's novel gives them such exceptional roles. Dostoyevsky's conception of character is awesome: he takes human carbon and shows it metamorphosed both into diamond and coal. At any point he shows how a character can completely change course. Astonishing new facets of each character suddenly emerge, and each new facet becomes a major twist in the narrative.

Thus we see Nikolai Stavrogin as a man both of honour and of dishonour, a man of high moral conscience and of appalling crime, a man involved in political debate and in sexual complexity, a man both in control of his life and wholly helpless. Pyotr Verkhovensky changes before our eyes no less: in Part Three, as he shoots one man and urges another onto suicide, it is almost impossible to believe that in Part One he first appeared as a well-meaning blabbermouth. Even minor characters whom we see only for a single scene have complexity and depth.

The production can be seen at the Barbican over three days or in cycles spaced over a single day; the latter can be recommended. I reported on this production when it visited Glasgow in May 1994. Parts Two and Three have, I believe, been cut since then; but I admire this production even more now because I have since seen several of its leading actors in Declan Donnellan's excellent Maly production of *The Winter's Tale*; it is dazzling to see how greatly such artists as Pyotr Semak and Sergei Bekhterev change from one play to another.

Semak, who was Leontes in *The Winter's Tale*, here is Nikolai Stavrogin. The change in him from role to role seems to operate only at the deepest level. As Leontes, he had a ramrod spine and explosively impeccable diction; here he is elegantly relaxed in both posture and utterance. The relaxation says everything: his ease within his society, his allure to women and men, his sense of utter resignation, his tragic detachment from his friends, his long-abiding private memory of a heartless crime. Semak's acting is a masterpiece of economy; I do not think I have seen acting so superbly stripped of external effects so that nothing but human essence remains.

Perhaps the supreme passage of this production occurs when he makes his confession: telling how once he seduced a 14-year-old girl and then waited until shame drove her to suicide. The story takes many minutes, and Semak seems not to move a muscle in telling it. We hang on his face and his voice. (And, to be fair, on the surtitles.) Even in Russian – which he makes sound the most beautiful language in the world – the drama here is astounding. He performs no special vocal feats; indeed, his voice hardly rises or falls at all; but at times it accelerates; and the rhythm, and the soft endless pressure, of his words speak of a whole nexus of memory, excitement, guilt, and moral anguish. Meanwhile (one of the masterstrokes of Dodin's production), a distant drum pounds like Stavrogin's pulse.

Dostoyevsky's rich and ironic account of the dark hearts of men becomes a vast drama of ethics, politics, love, nobilty, absurdity and pathos

Sergei Bekhterev's achievement as Pyotr Verkhovensky is also absolutely economical, but with radically different affect. Pyotr is all self-contradiction; he never fully knows himself; good and evil, strength and weakness, seriousness and pettiness co-exist within him in a constantly fluctuating amalgam. We seem to know him from within as he does not. But there are a dozen actors here whom I think of with sheer awe: Sergei Vlasov as Ivan Shatov, Sergei Kuryshev as Kirillov, Igor Ivanov as Lebyadkin, Galina Filimonova as Varvara Stavrogina, Irina Tychinina as Dasha, and more.

The oddest details – Dasha winding her loosened hair and pinning it up, for example – become enthralling here. The beginning seems bizarre – what is this woman talking about? – and then gradually you comprehend that she, Marya Lebedyakina, is deranged; that she is touching; that she has been loyal, and betrayed, and neglected. The memory of her haunts the drama long after; and takes its place beside the memory of other female victims, all strong, passionate, and surprising. And, arching over them, Dostoyevsky's rich and ironic account of the dark hearts of men becomes a vast drama of ethics, politics, love, nobility, absurdity, pathos.

Until July 5.

INTERNATIONAL

Arts Guide

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● La Gioconda: by Ponchielli. Revival conducted by Marcello Viotti in a staging by Filippo Sanjust; Jun 30; Jul 3
● Manon: by Massenet. New production conducted by Jiři Kout in a staging by Cesare Lieve. With sets by Margherita Palli and costumes by Luigi Perego; Jul 1

BIOT

EXHIBITION
Musée National Fernand Léger
Tel: 33-4-9291 5030
Fernand Léger: 1905-1930. Modified version of the major retrospective seen in Paris, Madrid and New York; from Jun 30 to Sep 30

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
● Don Pasquale: by Donizetti. New production conducted by Philippe Jordan in a staging by François de Carpentries on the Lunatheater stage; Jun 30
● The Turn of the Screw: by Britten. New production conducted by Antonio Pappano in a staging by Keith Warner, with designs by Stéphane Lazaridis. Cast includes Susan Chilcott and Anthony Rolfe Johnson; Jun 30; Jul 2, 3

CLEVELAND

EXHIBITION
Cleveland Museum of Art
Tel: 1-216-421 7340
www.clemusart.com
Gifts of the Nile: Ancient Egyptian Faience. Display of ceramics, known as faience, a mixture worked by the Egyptians and regarded by them as magical. Brings together over 200 works, including statuettes of kings, gods, and animals, and inlaid boxes ranging over 5000 years. Includes works borrowed from public and private collections in the US and Europe; to Jul 5

EDINBURGH

EXHIBITION
National Gallery of Scotland
Tel: 44-131-624 6200
Effigies and Ecstasies: Roman Baroque Sculpture and Design in the Age of Bernini. The National Gallery's major festival exhibition for 1998 is a celebration of the outstanding artist of the Italian baroque, Gianlorenzo Bernini, on the fourth centenary of his birth. Bernini's chief rival in sculpture, Alessandro Algardi, also features prominently. The show also includes a number of drawings loaned by British collections; to Sep 20

FLORENCE

OPERA
Teatro Comunale
Tel: 39-055-211158
www.maggiofiorentino.com
La Bohème: by Puccini. Conducted by Semyon Bychkov in a staging by Jonathan Miller; Jun 30; Jul 1, 2, 3

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255
● Falstaff: by Verdi. New production directed by Leon Major, with sets and costumes by John Conklin and lighting by Pat Collins. Baritone Stephen Powell sings the title role. The conductor is George Manahan; Jul 2, 5
● Tosca: by Puccini. New staging by the team responsible for last year's Madama Butterfly: director Marc Lamos, set designer Michael Yeargan, costume designer Constance Hoffman, lighting designer Robert Wierzel and conductor Stewart Robertson; Jul 3

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Così Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; Jul 2
● Rodelinda: by Handel. New production directed by Jean-Marie Villégier, with sets by Nicolas de Lajartre and Pascale Cazales. With the Orchestra of the Age of Enlightenment conducted by William Christie; Jun 30; Jul 3, 5

LEEDS

OPERA
Grand Theatre
Tel: 44-113-222 6222
Opera North: Eugene Onegin, by Tchaikovsky. New production by Dalia Ibelhauptaite, conducted by Steven Sloane. The cast is led by Alwyn Mellor and Peter Savidge; Jun 30

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: programme of works by John T Williams, conducted by the composer; Jul 1, 2

Wigmore Hall
Tel: 44-171-935 2141
Angelika Kirschschlager: recital by the mezzo soprano of works by Beethoven, Schubert, Schumann, Brahms and Wolf. Accompanied by Helmut Deutsch; Jul 1

EXHIBITION
British Museum
Tel: 44-171-636 1555
Maori: display of more than 500 objects relating to the Maori people of New Zealand, including material collected by Captain Cook on his voyages between 1768 and 1780. Ranges from giant wood carvings to canoes, tools and woven cloaks and ornaments; to Nov 1

Tate Gallery
Tel: 44-171-887 8000
Patrick Heron: b. 1920, Heron is one of the leading figures of 20th century British art. He led the development of abstract art in Britain with his stripe paintings produced in the 1950s. This display includes around 80 paintings, from the 1930s to the present; to Sep 6

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Doctor Ox's Experiment: world premiere of a new opera by Gavin Bryars, with a libretto by Blake Morrison, after Jules Verne. The production is directed by Atom Egoyan, with sets by Michael Levine and costumes by Sandy Powell. Cast includes Bonaventura Bottone; Jun 30; Jul 3
● Falstaff: by Verdi. Revival of Matthew Warchus's production, conducted by Paul Daniel. Donald Maxwell sings the title role; Jul 2, 4

THEATRE
Barbican Theatre
Tel: 44-171-638 8891
Maly Drama Theatre of St. Petersburg: The Possessed, by Fyodor Dostoyevsky, directed by Lev Dodin. 3 part adaptation previously seen at the Edinburgh Festival; 30 June Part 1, 1 July Part 2, 2 July Part 3; 4 & 5 July all day

The Pit, Barbican Centre
Tel: 44-171-638 8891
The Gift: written and performed by Angela de Castro; to Jul 4

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Philharmonia Orchestra: with tenor José Cura, in works by Puccini; Jun 30

NEW YORK

EXHIBITION
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Aleksander Rodchenko (1891-1956): first major US retrospective of the most important Russian artist of the period following the 1917 revolution. A founder and leading theorist of Constructivism, Rodchenko abandoned the traditional mediums of painting and sculpture in favour of experimental forms, photocollage and graphic design. The show presents 300 works created between 1915 and 1939; to Oct 6

NEWCASTLE

OPERA
Theatre Royal
Tel: 44-191-232 2061
● Opera North: Joan of Arc, by Verdi. New production by Philip Prowse, conducted by Richard Farnes with a cast headed by Susannah Glanville and Arthur Davies; Jul 1
● Opera North: Eugene Onegin, by Tchaikovsky. New production by Dalia Ibelhauptaite, conducted by Steven Sloane. The cast is led by Alwyn Mellor and Peter Savidge; Jul 3

PRAGUE

EXHIBITION
Galerie Rudolfinum
Cindy Sherman: retrospective tracing the New York-based artist's development from the 1970s to the present. Consisting of 156 works, this touring show presents selections from each of her major series; to Aug 23

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

China's temptation

The Asian crisis has enhanced China's reputation but its ability to sustain a stabilising role must be questioned

China has had a "good crisis". It would be going too far to say it has benefited from the Asian disaster: the prospective damage is too great for that. But it is the only state, apart perhaps from the US, to have emerged from the Asian turmoil with its reputation enhanced and its influence increased.

President Bill Clinton's visit is an indicator of US willingness to treat China with respect. This is particularly appropriate against the background of the country's stabilising role in Asia. Yet Chinese willingness to sustain such a role cannot be taken for granted, particularly if it conflicts with its domestic economic goals. Remember that its leaders' aim is, above all, to make their country a powerful, prosperous and modern nation. For them, this is an end in itself. It is also a condition for retaining power.

The Chinese empire was humanity's most successful adaptation to the technology of settled agriculture, and the world's most advanced civilisation for a thousand years before AD1500. Yet the resulting sense of superiority made it hugely difficult for China to adapt to competition from the western barbarians. Only under Deng Xiaopeng – after one and a half centuries of collapse, invasion, civil war and communism – did China make a serious start on the task. Even today, it has only just begun.

At market prices, China's gross national product was $906bn in 1996. This already put it seventh in the world after the US, Japan, Germany, France, the UK and Italy. It was the world's ninth-largest merchandise exporter in 1997, with $182bn, and the 11th largest importer, with $142bn. China has also become the world's second-largest holder of foreign exchange reserves, after Japan.

Yet, for all these recent successes, this is a country with gigantic economic problems. China has had two good decades. It is an open question whether it will have the two to three more needed to become the superpower its leaders believe it ought to be.

That question is illuminated by a fascinating forthcoming book from Nicholas Lardy, a distinguished analyst of China's reforms.* Mr Lardy focuses his attention on the triangle formed by China's inefficient state-owned enterprises, the dire condition of its banks and the weakness of its public finances. His conclusion is that the past pattern of gradual reform has papered over huge problems that must be tackled soon.

Contrary to what many might suppose, the number of people employed in state-owned enterprises actually grew from 72m in 1977 – 79 per cent of the urban labour force – to 112m in 1996 – still around 65 per cent of the urban labour force. Even in 1996, the share of investment in fixed assets within state-owned and other collective enterprises was 69 per cent. This has remained a highly socialist economy.

Does this matter when the economy has been able to grow at 10 per cent a year for two decades? A partial answer is that past growth has been exaggerated. The more direct response is that the performance of state-owned enterprises has deteriorated substantially over the reform period, both economically and financially: the return on investment fell from 15 per cent in 1987 to 5 per cent in 1994.

By allowing state-owned enterprises to retain their profits, the Chinese state lost a huge part of its fiscal revenue. But by also opening the enterprises to the pressures of competition, it reduced their ability to finance themselves. It had to find a way out. The solution was to encourage increased lending by banks. The resultant "quasi-fiscal" deficit was far larger than the published one. Mr Lardy estimates the public sector borrowing requirement at over 10 per cent of gross domestic product for almost a decade.

Fortunately, the savings of the Chinese people soared with increased prosperity. Household assets rose from Rmb42bn in 1978, to Rmb5,032bn in 1996, 77 per cent of which was put in banks and another 12 per cent in cash. The banks then lent the money to the state-owned enterprises.

Yet since much of the investment financed by the banks has turned out to be bad, this is unsustainable. Already in 1995, 22 per cent of bank loans were counted as non-performing. The likelihood is that this will turn out to be a very serious underestimate. How can it be otherwise when the state-owned sector as a whole was in the red in the first quarter of 1996?

The implication is that liberalisation of the financial system is today impossible. It would lead to a financial collapse as people pull their money out of the evidently bankrupt banks and shift to more remunerative alternatives. The government has to recapitalise the banks. One estimate is that state-owned enterprises need a debt write-off equal to 25 per cent of GDP.

Fortunately, the government's internal debt is under 10 per cent of GDP. Unfortunately, floating the extra public debt to finance recapitalisation of the banks would be pointless without fundamental changes to the operation of both state-owned enterprises and banks. Otherwise, the problems will re-appear. But these reforms must also mean a big rise in urban unemployment, which is already high by Chinese standards.

China's financial crisis is just as bad as that of any other Asian country, except for the fact that foreigners are not involved. While that gives the country breathing space, it is still threatened by a slowdown in economic growth, as low returns on past investments become evident and, at worst, by outright pressure to monetise the overhang of internal bad debt.

Yet an unelected communist government whose *raison d'être* is widening prosperity can hope to deliver reform only if economic growth continues. So if China is to avoid a disruptive devaluation, it needs to be able to sustain rapid growth, while undertaking reform. Can it do so? The answer has to be: with considerable difficulty.

True, devaluation by a country with huge foreign exchange reserves and a strong balance of payments will be seen as highly predatory, particularly in the context of a regional financial crisis. But since Japan has busily done exactly that, this is not going to seem an overwhelming objection by the Chinese leadership, if pressed hard enough.

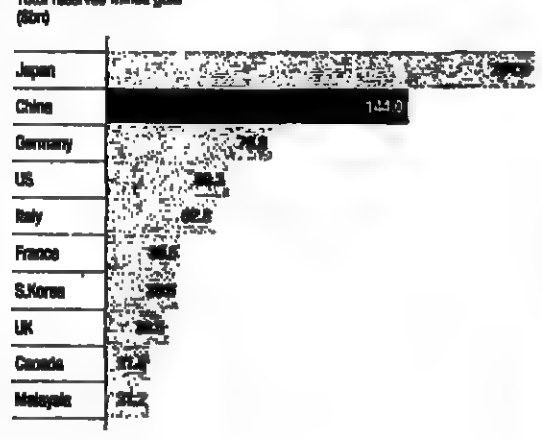
An effort is being made to sustain domestic demand, by promoting investment in infrastructure and housing. But any serious attempt at enterprise and banking reform will reduce China's wastefully high investment, which was an astonishing 42 per cent of GDP in 1996. This, in turn, will lower growth quite sharply. And that will make the leadership look with renewed attention at the need to sustain dynamism in exports.

China has been able to play a stabilising role in the regional crisis not because it is healthy but because of a combination of exchange controls with huge foreign exchange reserves. Yet if it proceeds with the planned reforms now, growth will probably slow, as wasteful investment is cut. If it does not reform, growth will still slow, probably more slowly and durably, as resources continue to be wasted. Either way, devaluation will prove tempting. The question to focus on is more when it will happen than whether it will do so.

**China's Unfinished Economic Revolution, Nicholas Lardy, Washington DC, Brookings Institution*

Martin.Wolf@FT.com

China's not so secret weapon
Total reserves minus gold ($bn)



Source: IMF, WTO

LETTERS TO THE EDITOR

IMF-inspired Russian currency board would inspire confidence

From Mr Richard Hopkins.

Sir, Martin Wolf's solution to Russia's financial crisis ("Russian knife-edge", June 23) is to create a rouble stabilisation fund which would be withdrawn if necessary fiscal targets were not met. The very existence of this threat would mean that the fund could not fulfil its primary role of increasing international confidence in the rouble. Additionally, to base the fund's ongoing existence on such a condition is misguided on two fronts.

First, Russia's problem is not a fiscal one – it is a monetary one. The budget is going into a primary surplus. The real problem is one of non-payment of bills and inter-enterprise arrears caused by a lack of cash in the economy. An increase in the primary budget surplus will not solve this.

Second, currency speculation is by its nature short-term while structural reforms are long-term. A radical programme of restructuring, even if started tomorrow, would take years to have any effect. In the meantime, Mr Wolf's stabilisation fund would disappear via the financial system into the capital flight it is supposed to be curing.

Why has the International Monetary Fund not suggested the creation of a Russian currency board? This would create international confidence in the rouble and allow the rouble money supply to grow in real terms (thereby remonetising the economy) as foreign exchange-denominated external investment is matched with new roubles in circulation. Interest rates would necessarily fall significantly thereby reducing the secondary budget deficit.

Perhaps the answer to my question is that the IMF prefers to use a currency board to cure its patients rather than immunise them.

Richard Hopkins,
emerging European fund manager,
Perpetual Investment Management Services,
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French electricity contract not one-sided

From Mr Claude Mandil.

Sir, Describing the main areas identified by the UK government for electricity reform, your report, "Government plans five main areas of reform" (June 26), mentioning the "one-sided contract that allows France to export subsidised nuclear power to Britain but restricts traffic the other way", is misleading.

The costs of nuclear power produced in France are fully paid by consumers, including the cost of decommissioning and waste management. I am not sure that is the case in all other countries or for other primary energies.

The provisions of the "electricity contract" are that Electricité de France may buy electricity from UK suppliers if the price is attractive and may sell into the pool if it matches the market price. It seems the second situation exists more often than the first, but this is the result of market forces and is by no means the consequence of a "one-sided electricity contract".

Claude Mandil,
director-general of energy,
Ministry of Industry,
101 rue de Grenelle,
Paris, France

Make English football hooligans pay

From Mr Nicholas Melchior.

Sir, Let me add a recommendation to the contributions of Andrew Taylor ("The net losses from shame", June 19) and D.E. Bishop (Letters, June 23) on the behaviour of English football thugs.

It seems that it is not possible – even with extensive intelligence from international police – to prevent the movement of these undesirables beyond the confines of the British Isles. So be it then. But the British must protect their good name abroad and – essentially - be seen to be doing so.

If football hooligans cannot grasp the basics of acceptable social behaviour – especially when abroad – then each and every one who is arrested must suffer a mandatory no-nonsense prison term in England after his release from a foreign jail.

In addition there should be a lien on their income – from any source, including the dole – until every penny of repair bills made necessary by the gangs responsible has been repaid.

Then, perhaps continental Europeans may be more inclined to take our apologies more seriously. We may *even* reduce the onset of this savagery in the future!

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The future of futures

Edward Luce wonders whether technology will become such a vital part of trading systems that exchanges will end up as subsidiaries of telecoms companies

Open outcry trading is under threat from electronic systems

All around the world, markets are in turmoil. No, not because asset prices are plummeting. Rather, it is the very structure of the trading system that is changing.

A few months ago, members of the London International Financial Futures and Options Exchange (Liffe) were strongly opposed to screen-based trading. That was before Liffe's electronic rival, Deutsche Terminbörse, had grabbed more than half Liffe's business in the vital futures contract on the 10-year German government bond. This month, 96 per cent of Liffe's members voted to go over to electronic trading too.

In Chicago, where traders in coloured jackets still wave their arms around on the floor of an exchange, many continue to oppose the electronic alternative. Yet senior executives at the two big exchanges, the Chicago Board of Trade and the Chicago Mercantile Exchange, are making contingency plans for electronic trading.

The trend is not confined to futures exchanges. Nasdaq and Amex, the second- and third-largest stock markets in the US, both of which use screen-based systems, last week agreed to merge. They aim to use their technology to compete better with the New York Stock Exchange. And yesterday saw the last-ever London tea auction. The weekly meeting of buyers and sellers, which has set the world tea price since 1679, will be replaced by an electronic trading system.

Technology has gone furthest in the futures and options markets. It has gone so far, indeed, that many in those businesses are asking questions that go to the heart of trading systems: will exchanges exist a few years from now? If so, what will they look like?

The second question is easier to answer. Exchanges will exist solely in cyberspace; they will not physically resemble any market at all. "Exchanges will lose the feel they have had up until now because the only contact they will have with the outside world is through a screen," says the head of one derivatives exchange. The underlying reason is simple: screen-based trading is cheaper and quicker.

Exchanges are places for matching the demands of buyers and sellers for products of every sort. So that participants can know what they are buying or selling, the contracts have long been standardised. But electronic trading systems do not have to be bound by such constraints. They allow trading to take place anywhere. Could they also allow it to take place in anything?

The question is not far-fetched, for this is roughly what the over-the-counter market does. The OTC market is an informal market where custom-made contracts are traded by banks and other financial institutions. An OTC derivative is typically a bilateral contract between two banks such as an agreement to swap floating-rate notes for fixed-rate notes at a specified date. The OTC market has been doing very nicely: its market in derivatives is estimated to have risen sixfold in the US over the past five years.

So is this free-wheeling, anything goes market the future of futures exchanges? No. It may be a step too far. Liffe and its chief competitors, the DTB in Frankfurt and Matif in Paris, say that even in cyberspace customers will want to keep two characteristics of the traditional trading floor.

The first is the minimisation of risk. Customers trading on an exchange face no risk of being dragged down if the party they are doing business with goes bankrupt. The exchange clears and settles transactions. By contrast, in the OTC market, there is nothing to stand between you and the consequence of your counterparty going out of business.

The second advantage is standardisation. In the OTC market, the two parties negotiate a tailor-made contract. Odd-length maturities of, say, 11 weeks or 3½ years are common. Standard products offer something everyone can trade. They act as benchmarks, such as the futures contract on the 10-year UK government bond.

Both these are advantages – as can be seen by the recent behaviour of the OTC market. Once a network for trading anything, anywhere, it is now borrowing the attributes of traditional exchanges. One example is the recent proposal by the London Clearing House (which clears and settles transactions for several London exchanges) to do the same for one particular part of the OTC's business, the interest-rate swaps market in the US. The proposal, which has yet to be given the green light by the US regulatory authorities, would result in the removal, for the first time, of counterparty risk in the OTC market. Another example is increasing standardisation of products on offer on the OTC market for derivatives.

In short, trading practices seem to be converging. Trading floors are losing out to electronic trading systems. But electronic systems are also taking on some of the attributes of the old-fashioned exchange.

But that still means the market of the future will be based on electronic systems running software programmes. And if other businesses are anything to go by, this means "open architecture" – the ability to trade other software systems from one particular screen – will be essential for success.

"The more open the system, the better the exchange will be able to compete," says Simon Orebi Gann, head of information technology at Liffe. Therein lies a dilemma. In an open architecture system, customers, at the click of a mouse, will be able to trade the same (or similar) products on a rival exchange. The ability of exchanges to differentiate between each other will narrow dramatically. And the pressure to merge will intensify, especially in Europe where economic and monetary union will anyway curtail the number of products on offer.

"Hopefully there will be more than one exchange in Europe in three or four years time," says Brian Kaye, chief executive of Fimat, a French brokerage house. "But I cannot, hand-on-heart, say that there *will* be."

Ultimately, it is a reasonable bet that there will only be three or four futures exchanges left in the world a few years from now. These will compete with each other on the quality of their software. Like Microsoft, the US software company, which derives most of its earnings from upgrading existing applications, the successful futures exchange will make its money from licensing and upgrading its system.

And given the central r[illegible] of software in the futu[illegible] exchanges, many beli[illegible] software or even telecom[illegible]unications companies co[illegible] end up owning them. "[illegible] value provided by a de[illegible]tives exchange will be [illegible] software," says the [illegible] executive of a leading [illegible]pean exchange. "My g[illegible] that the few of us w[illegible] vive will end up as [illegible]iaries of global tele[illegible] software companies."

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FINANCIAL TIMES

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Tuesday June 30 1998

One year passes in Hong Kong

To the casual observer little fundamental has changed in Hong Kong in the year since it reverted to China. True, the territory is going through its worst recession in a generation, but the origins of that are external. The fabric of Hong Kong society, its economic system and its way of life remain much as before.

That is greatly to China's credit. Beijing promised a high degree of autonomy and has lived up to that commitment, enhancing its own stature in the process. The people of Hong Kong have also risen to the occasion. The large turnout in last month's elections was a welcome mark of a civil society determined not to give in to apathy.

Yet there is a risk of complacency. Hong Kong is only at the start of a long transition away from the executive-led government of colonial rule to the eventual establishment of full democracy, described as the ultimate aim in its Basic Law. The outcome is still deeply uncertain.

Though it may seem too early, debate is needed now on some fundamental issues if the momentum of democratisation is to be maintained. Should an elected chief executive eventually preside over government from outside the legislature, like a US president? Or should he sit in that legislature as head of its largest party and govern as chief minister from within? And what is to be the eventual role of Hong Kong's hitherto powerful civil service?

These questions all have profound bearing on the future shape of Hong Kong. What happens in the short term must not be allowed to pre-empt the long term answers.

Already there are signs of quite significant change at the margin. The government of Tung Chee-hua has been more tolerant than many expected on political freedoms, but it has also moved to exempt certain mainland officials and institutions from Hong Kong law and showed occasional leniency to those that support the mainland. A dispute over broadcast media freedoms also put Mr Tung for a while at odds with Anson Chan, the territory's top civil servant.

The handling of the economic crisis also suggests a politicisation of the office of chief executive. Mr Tung has sometimes seemed at odds with his leading economic officials. Some interpreted last week's support package for the property market as a panic move primarily designed to help property developers.

The suspicion that the overall need for adjustment was overlooked in favour of a narrow sectoral interest may be simply due to poor communication by Mr Tung. But the chief executive seems to rely heavily on a small circle of advisers and the fumbling over the economy leaves an impression of incompetence.

The biggest concern is that a future style of government, in which the civil service may play a lesser role and the legislature simply be an elected but impotent opposition, is already being shaped

This is not something that should be allowed to happen by default. The more Hong Kong's chief executive is made accountable, the more secure will be the rule of law, and the more firmly based the territory's future prosperity. Hong Kong's politicians – and its media – need to remain vigilant to be sure that this is indeed what happens.

Islam in the dock

Turkey's generals are digging themselves into an ever deeper hole with their heavy-handed pursuit of Islamist politicians. At their instigation, Necmettin Erbakan, the former prime minister, was yesterday put on trial for "slandering" the constitutional court. He had criticised its decision last January to dissolve his Islamist-leaning Welfare party and bar him from politics.

It was hardly surprising that Mr Erbakan criticised the court. Even less surprising, the generals' obsession with keeping Turkey secular by almost any means is proving counter-productive.

Welfare, now renamed the Virtue party, is not aggressively radical. But the authorities' decision to treat it as extremist could push some towards extremism. Moreover, the military seems keener to suppress the outward signs of Islam in Turkish life than the inner causes of Islamic fundamentalism. Thus, the generals have imposed anti-Islamic controls on dress, mosque building and religious broadcasting, rather than deal with the high inflation, bad education and rapid rural migration that could feed Islamic fundamentalism.

Until the military confines itself to barracks, it will hamper Turkey's chances of ever passing the democracy test for joining the European Union. Earlier this month, the EU decided on a gesture to reinforce Turkey's eligibility: Brussels would report every year on what progress Turkey, as well as east European candidates, had made towards membership. The Erbakan case will get Turkey a bad report card.

City regulation

The problem is perennial in financial regulation: how to crack down on abusive practices – price manipulation, insider trading and the like – when markets are fast changing and you do not wish to stifle legitimate innovation. The UK government's answer is to give strong and flexible powers to its new regulator, the Financial Services Authority, balanced by appeals to an independent tribunal.

Like the Securities and Exchange Commission in the US, the FSA is to be given the power to impose civil sanctions, including unlimited fines. Legislation will set out very generally what constitutes unacceptable behaviour, while the FSA will issue a much more detailed – and amendable – code of conduct. A first draft of the code has just been issued for comment.

Both the government's broad architecture and the FSA code deserve qualified support. For the existing statutory framework, enshrined in the 1986 Financial Services Act and the 1993 Criminal Justice Act, has not proved particularly effective.

Also welcome is a government re-examination of the cumbersome procedure for handling large-scale criminal fraud cases. Lord Irvine, who as Lord Chancellor is head of the legal system, last week floated the idea of a streamlined process that would eliminate duplication of effort by up to eight separate agencies.

The drawbacks of existing market abuse legislation are underlined by the fact that there have been only 17 prosecutions for insider trading since 1990, 12 of which have been successful. An onerous standard of proof – criminal intent – is required in such cases, and there are questions about the suitability of juries for what may be long and complex trials. The proposed civil regime would impose a lesser standard of proof – "balance of probability" – and there would be no jury.

However, some lawyers question the government's belief that this would satisfy the fair trial requirements of the European human rights convention. They suggest the "balance of probability" standard could be challenged before the tribunal. And how many individual plaintiffs could bear the costs of an appeal?

There are also questions about the FSA's investigation and enforcement process, which will include the power to compel testimony. The details have yet to be fixed and it is vital that the authority avoids any hint of summary justice.

The code of conduct also needs refining. Its description of unacceptable behaviour will be broadly backed by the market, but there are areas where the FSA's desire for flexibility allows it too much latitude of interpretation. For example, it imposes standards on people with a material interest in an investment without adequately defining "material".

But whatever the wording, the larger issue is how in practice the FSA will wield the very wide powers invested in it. It will be good if it can invoke in City wrongdoers the edge of fear the SEC has long commanded in the US. But this has to be balanced by a regime that appears fair, speedy and transparent. It must seem so, above all, to City practitioners who fear regulatory high-handedness and suspect the level of some recent fines has smacked of headline-seeking.

The elephant and the mouse

As Germany's chancellor trails Gerhard Schröder in opinion polls, Peter Norman explains the possible outcomes of September's general election

Things are looking bad for Europe's prime political heavyweight, Helmut Kohl, the German chancellor. With three months to go before Germany's September 27 general election all signs point to a transfer of power in Bonn at the ballot box. That would be unprecedented. Previous changes of government in Germany have come about after the fracturing of the ruling coalition.

A win for the telegenic Social Democrat candidate, Gerhard Schröder, would not necessarily mean a spell in opposition for Mr Kohl's Christian Democratic Union and its Bavarian sister party, the Christian Social Union. They could end up as junior partners in an SPD-led government. Although opinion polls point to a "red-green" coalition of the SPD and the environmental Greens as the most likely outcome, election arithmetic could yet make a "grand coalition" of SPD and CDU/CSU unavoidable.

But any result, except the return of the present combination of the CDU/CSU and the small Free Democrat party, would mean Mr Kohl's departure as chancellor. The man who has dominated European Union affairs for more than a decade, governed Germany for nearly 16 years and headed his own party for 25, has made clear he will not head a grand coalition even if his party emerges as the strongest in the next parliament. If the SPD can turn its present opinion poll lead into victory on election night, Germany's next chancellor will be Mr Schröder.

He has a lot of obstacles to overcome before that happens, Mr Kohl not the least of them. Now 68, the chancellor has bounced back from adversity in the past. Mr Schröder must also overcome the famous resistance to change displayed by the German (or at least west German) electorate. And he must prevent the SPD from self-destructing, which it has done several times before elections – one reason why the last time the party governed in Bonn was in 1982.

But Germany has been following a different script this year. It feels rather as Britain did in the pre-election spring of 1997. Its centre-right government has fallen prey to internal disputes over policies, strategy and tactics after many years in power. The opposition Social Democrats, while not as "modern" as the New Labour party of Britain's prime minister Tony Blair, are disciplined and increasingly assuming the aura of a government in waiting.

Mr Schröder is cautious when assessing his election prospects. The complexities of Germany's system of proportional representation mean "this is no country for absolute majorities", but the SPD has "a very good chance of being the strongest party", he told the FT in a recent interview. But he oozes confidence when asked how he plans to govern. "I won't have problems of exercising authority because the office of chancellor has so much power to reach the people through the media ... The chancellor has the power to set the direction of policy and that I will do."

The SPD challenger has been careful to strike a note of economic prudence. He has kept some distance from his party – insisting, in an endearing display of honesty, that he may not be able to fulfil all election pledges. He has named a 43-year-old self-made computer entrepreneur, Jost Stollmann, who has no party affiliation, as his future economics minister. Above all, the pragmatic Mr Schröder and left-leaning Oskar Lafontaine, the SPD leader, have kept their own differences and their famously fractious party under tight control. "We are not twins. But we are a damned good team," Mr Schröder remarked when adopted as candidate. "We have learnt from our mistakes and we are united," Mr Lafontaine says.

The SPD has suffered setbacks, notably last month when the party in the eastern German state of Saxony Anhalt went against Mr Schröder's wishes and set up a minority government with the tacit support of the former communist Party of Democratic Socialism (PDS). But the opinion poll ratings of Germany's big parties have been remarkably stable since March 1 when Mr Schröder was nominated SPD candidate after being re-elected prime minister of Lower Saxony with a sharply increased majority. SPD support has oscillated between 42 and 45 per cent, while backing for the CDU/CSU has hovered around 36 per cent.

The small parties, whose performance could determine the composition of the post-election coalition, have been more volatile. Support for the Greens, the liberal Free Democrats and the PDS has at various times dipped below 5 per cent, the level that generally determines whether a party can enter the Bundestag, the German lower house. The Green party, the SPD's putative coalition partner, poses some risk to SPD ambitions. Its support, currently around 7 per cent, has seesawed between 11 and 4 per cent since early March when the party congress challenged the country's love affair with the car by voting in favour of tripling petrol prices over the next 10 years. At the same time, grumblings inside the liberal Free Democrat Party about Mr Kohl and the CDU/CSU have unsettled the government amid persistent fears that the junior member of the Bonn coalition may be heading for electoral oblivion.

> **'Schröder is a fresh face with old policies while Kohl is a well-known face with fresh policies'**

None of this has dented Mr Kohl's belief that he can win an unprecedented fifth term. He has taken to the campaign trail with gusto. "The old elephant is up and running," one of Mr Kohl's ministers enthuses. With the euro under his belt, he has begun to emphasise national interests rather than European visions. He has dropped his habit – seen as a turn-off for younger voters – of reminiscing about the distant days immediately after 1945.

But the chancellor's campaign has been marred by mishaps. May's EU summit launching the euro was blighted by the row over Wim Duisenberg's appointment as European Central Bank president. A bid to sell the government's policies more vigorously misfired when Otto Hauser, the newly appointed Bonn government spokesman, became embroiled in a fortnight-long controversy for likening the PDS to the Nazis.

Matthias Wissmann, the transport minister, argues that "Schröder is a fresh face with old policies while Kohl is a well-known face with future-oriented policies". But there has been little sign of a forward-looking campaign so far. Mr Kohl's strategy has been to brand the SPD, Greens and PDS as parties of the extreme left and undermine Mr Schröder's claim to represent a "new centre" in German politics. A CDU poster campaign suggests the SPD aims to come to power with the support of crypto-communists. This has had the effect of strengthening support for the PDS, but at the SPD's expense, so the net result might be to help the CDU/CSU on election day.

So might former communists end up in a coalition governing the EU's largest country? Mr Schröder dismisses the idea. "Every error of government that the voter would normally forgive would be blown up into a huge problem. You could become chancellor with red-green and PDS but you couldn't govern as chancellor."

By contrast, the SPD and the Greens co-operate locally and form coalitions in several important states. "The everyday experience of people is that it works. Another point is that Green supporters are often children of conservative parents."

If the SPD is to go into coalition with the Greens at federal level, it would have to hold "those ministries which in the broadest sense concern the nation's security: that means economy and finance, home affairs and justice". Intriguingly, Mr Schröder's list does not include the foreign ministry, which has been tipped as a possible job for Joschka Fischer, the leading representative of the Green's pragmatic wing.

But that is to rush ahead. Between now and then, three months must pass and it would be a mistake to assume the main parties will retain their present strengths until election day. According to Dieter Roth of Forschungsgruppe Wahlen (FGW), a political research company, the government usually picks up support as voters return from their summer holidays; and the CDU and CSU are anyway better than the SPD at mobilising their traditional supporters. Both these factors should help Mr Kohl narrow the gap.

True, FGW's latest poll found Germany's voters are still primarily worried about unemployment and they credit the SPD with more competence to solve the problem. Against that, economic recovery, highlighted by a sharp fall in unadjusted "headline" unemployment from a record 4.82m people in January to 4.2m last month, may benefit the government. A recent survey by the Allensbach opinion research institute showed 23 per cent of those polled consider Germany's economic situation to be good or very good compared with only 15 per cent in February.

For all these reasons, politicians of all persuasions expect the present 6-7 point gap between the SPD and CDU/CSU to narrow. Mr Wissmann, the transport minister, forecasts "it will be neck and neck between SPD and CDU/CSU in the summer" and says he is "sure the CDU/CSU will be the biggest party" on election day.

Mr Schröder gives the impression that a grand coalition is as much an option after the election as red-green. "You need a certain margin beyond the absolute majority in the Bundestag to be able to govern. And Lafontaine and I agree we need a stable government," he says.

One indicator of uncertainty is how politicians, when talking off the record, readily speculate about the possibility of a grand coalition. "It will be close. I wouldn't bet on red-green but I would bet against Kohl in any case. That means a grand coalition," says one senior opposition figure. Minutes later, he corrects himself by adding: "We are doing all we can. We have a good chance of winning. My feeling is that we will win."

OBSERVER

Investing with Ivester

There was a warm reception for Doug Ivester as he hosted his first big analysts' briefing as Coca-Cola's new chairman and chief executive. With 500 guests wilting in the Atlanta heat, Ivester didn't have to work up a sweat to persuade his audience that a cold Coke should always be "within an arm's reach of desire".

Ivester, 51, may not have the natural fizz of his predecessor, the late Roberto Goizueta, but the man raised in the sweltering southern states makes up for it in other ways. In more than eight hours of presentations, the one-time bean-counter and his Coke colleagues churned out management mantras like cold cans from a vending machine.

It's not exciting to watch, but this seemingly robotic devotion to duty seemed to reassure those present. Coke's share price hit an all-time high in the wake of the meeting, confirming the beverage behemoth as the US's third-largest stock after General Electric and Microsoft.

It was left to chief financial officer James Chestnut to come forward with the most thirst-quenching figures of the day. Apparently, it takes a Wall Street analyst only two seconds to earn the price of a Coke, against a minute for the average American worker and a full four minutes for a typical South African.

Warren Buffett, Coke's largest shareholder, can afford to sink a bottle of the bubbly brown stuff every two one-hundredths of a second. And that's based on his Coca-Cola dividends alone.

Hanky banky

Good to see that banking analysts marooned in Tokyo haven't lost their sense of fun. According to one group of black-humoured bank-watchers, the Japanese financial crisis shows no signs of easing. "Following last week's news that Origami Bank had folded," they report, "we are hearing that Sumo Bank has gone belly up and Bonsai Bank's growth has been stunted and now it plans to cut back some branches."

There's worse to come. Karaoke Bank is up for sale and is rumoured to be going for a song. Meanwhile, shares in Kamikaze Bank have nose-dived and 500 back office staff at Karate Bank got the chop. Analysts report that there is something fishy going on at Sushi Bank and staff there fear they may get a raw deal. Worst of all, even Miso Bank is in the soup.

Bearing straits

Peter Augustsson, embattled chief executive of Sweden's SKF, must sometimes miss his 16 years in the dull but safe confines of Volvo. Yesterday the normally mild-mannered 43-year-old announced his second sweeping restructuring in eight months at the once high-rolling bearings group. He had to admit that margins were lousy, costs excessive and that 4,000 workers would have to pay the price.

Meanwhile, some shareholders – for whom SKF profit warnings have become depressingly regular – are beginning to wonder whether Augustsson himself has lost his bearings after three years in charge. Demands for clear-cut strategic vision have been met with woolly talk of "optimisation of product assortment" and "redefined vertical integration".

Yesterday Augustsson tried to soothe fears by promising to axe loss-making operations in SKF's automotive components subsidiary. As the man who helped launch Volvo's S40 saloon and bulky 840 series, he should know how to steer that side of the business back into the black.

But with the impatient Percy Barnevik in the driving seat at Investor, SKF's largest shareholder, you have to wonder whether Augustsson is running out of road. Barnevik's not a man to tolerate investments stuck in first gear.

Maid of Makati

Joseph Estrada gets sworn in as president of the Philippines today. But even before his inauguration the former movie star was sending shudders through Makati, Manila's financial district. His latest bold initiative is to appoint Leonor Briones, currently working at the University of the Philippines, as the country's new treasurer.

It's not her academic links that cause concern in the financial community. For seven years until 1996, Briones was president of the Freedom from Debt Coalition, where she argued in no uncertain terms that the Philippines should not honour its international debt obligations. An interesting background for someone charged with presiding over the government's borrowing programme.

"Appointments like this make you wonder if the bad old days are here again," mourns one businessman. "I'm just pleased she wasn't made budget secretary."

How's that for looking on the bright side?

Flying Dutchman

The European Central Bank is launched today with all kinds of razzamatazz – only weeks after Wim Duisenberg emerged from a nasty Franco-German spat as its first president. But no-one could accuse the monetary mogul of not getting up to speed.

The man whose reputation is anything but fast and loose let slip that he's been taking full advantage of Germany's wonderfully unrestricted autobahns to slip home to The Netherlands at weekends. Duisenberg says he can cover the 450km drive from Frankfurt in just three hours. For the non-metricated, that's an average speed of 93mph. No wonder his hair is white.

The Financial Times 100 years ago

Tahiti trades up

Consular reports keep furnishing us from time to time with interesting examples of the process of civilisation which is going on throughout the world. Thus we find from one just issued on the trade of Tahiti that even with regard to such prosaic articles as underwear the inhabitants of that island are becoming quite fastidious. Unfortunately, this happens to affect adversely that particular department of British trade, as it appears that the tasteful designs and superior make and finish of those goods imported by Germany, France and Switzerland have almost wholly supplanted those of British make.

50 years ago

Berlin siege

Marshal Sokolovsky, Soviet Military Governor in Germany, to-night told General Sir Brian Robertson, the British Military Governor, that the siege of Berlin may be lifted before the food situation becomes acute in the western sectors of the city.

Marshal Sokolovsky's letter stated that the traffic restrictions introduced on June 19 between the Russian zone and the Western zones had only been of a temporary nature and had been introduced to protect the currency of the Soviet zone.

FINANCIAL TIMES
TUESDAY JUNE 30 1998

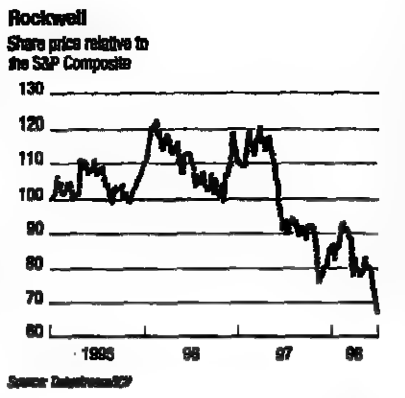
THE LEX COLUMN

Rockwell's hard place

Since Rockwell trumpeted its transformation into a focused electronics group last October, it has issued two profit warnings and seen its stock drop by a fifth. Not surprisingly, its management has suddenly discovered scope for further "repositioning".

Yesterday's decision to spin off its semiconductor division – following disposals of the defence and automotive businesses over the past two years – is a good start. Rockwell's dominance in chips for computer modems has been undermined by new technology and stiffer competition from the likes of Texas Instruments. With Asian problems on top, semiconductors is currently losing money. In any case, its volatility sits uneasily with Rockwell's rather more staid industrial automation and avionics businesses. And a demerger looks the right option. In this market, the division would not have fetched much in a trade sale. At least this way, shareholders have the chance to benefit through either recovery or bid speculation.

Meanwhile, the restructuring should leave Rockwell itself with 15 per cent operating margins, 8 per cent annual sales growth and little debt. Yet, after the spin-off, the group will be valued at an estimated $9bn or just 1.3 times revenues – not a particularly big bite for General Electric or Siemens. Perhaps this is where the real bid hopes should centre.



Japan's Big Bang

Banks matter too much in Japan. Had its capital markets been more developed, a banking crisis might have been avoided. That is why the Big Bang financial deregulation matters – it beefs up Japan's puny non-bank sources of finance. Hence the disquiet caused by the scuffle between foreign securities firms and the Ministry of Finance over investor protection legislation. Tokyo wants to match Wall Street and the City of London. On current evidence, it falls well short.

The great and the good of global securities firms do not naturally attract sympathy. But on this issue they have a point. The Ministry of Finance and its cronies are drafting critical legislation without consulting them. The upshot is that securities firms face the potentially lethal cocktail of an investor protection scheme they have not helped shape, where they are outvoted by financially vulnerable small firms, where customer and firm assets are only hazily separated, and where they face potentially unlimited liability.

Naturally these firms want to avoid being landed with the tab for bailing out Japan's more wayward securities firms. But the dispute is not simply about self interest. Wall Street's finest are capable of scrapping with the best. However, if Japan draws the rules in such a way that they are reluctant to go on the pitch, there is scant chance of Big Bang succeeding. The big loser, of course, would be Japan.

Airbus/British Aerospace

Still believe in efficient markets? Well, try to square that with yesterday's near 10 per cent jump in British Aerospace's share price. The trigger was an unconfirmed report that British Airways will buy £600m of planes from Airbus, in which BAe has a 20 per cent stake. Now such a purchase would clearly be good news for BAe – not least because BA has traditionally bought from Boeing. But the share price reaction is out of proportion.

Forget for a moment that this is not a confirmed order and that the market anyway knew Airbus was in the running. Even if the order were solid and had emerged out of a clear blue sky, the reaction would be irrational. The Airbus stake accounts for only about 20 per cent of BAe's value – meaning yesterday's jump could be valid only if a BA order boosted Airbus's value by an implausibly high 50 per cent.

Look at this another way: BAe's market capitalisation shot up over £700m – more than the total value of the rumoured deal.That would not be justified even if BAe owned all Airbus and every penny from BA went straight to its bottom line. As it is, given cut-throat competition with Boeing, Airbus will be lucky to make any profits at all.

PowerGen

PowerGen has finally got its hands on a regional electricity company. But, in its haste, it has weakened its negotiating hand with its regulator. Its £1.9bn acquisition of East Midlands Electricity is not conditional on regulatory clearance. PowerGen seems convinced that disposing 20 per cent of its coal-fired plants should win the requisite brownie points. The regulator may have other ideas. PowerGen has no pre-arranged deal – at least not one Stephen Littlechild is aware of. PowerGen is taking a risk by putting itself in the hands of a regulator increasingly on the war path.

PowerGen could, of course, resist aggressive demands for disposals in the Monopolies and Mergers Commission. It might point out that such a fight would not be conducive to protecting British miners' jobs through the purchase of more coal. But these issues, both the government and PowerGen insist, are not linked – so that bit of leverage has disappeared too.

Would the East Midlands acquisition make sense even if the regulator pushed for big disposals? It would certainly lessen the attractions. PowerGen's need to secure firm buyers for its power would be less pressing if its generation business were shrunk dramatically.

But acquiring East Midlands still offers a hope of expanding in the UK - whatever happens on the generation front. PowerGen is paying a full price for the privilege but the expected synergies from putting together two businesses should compensate. Moreover, as a vertically integrated power group, it will be a much more attractive partner to international operators. East Midlands is probably the appetiser to the Houston Industries main course.

DEALS WORTH $931BN ALREADY EXCEED FIGURES FOR WHOLE OF 1997

US mergers and takeovers set record in first 6 months

By William Lewis in New York

The value of mergers and acquisitions in the US so far this year has exceeded that for the whole of 1997.

In a report to be published today, Securities Data, the M & A data consultancy, says that in the first six months of 1998 deals worth $931bn were announced. That compares with business worth $926bn in 1997, a record year for the M & A industry.

"We have already exceeded last year's announced dollar volume . . . and it is looking as if $1,700bn is possible for the end of year total," Richard Peterson of SD said yesterday.

The half-year record total was powered primarily by a series of big deals in the second quarter in the banking and telecommunications sectors. They included the $72.5bn merger of Travelers Group and Citicorp and SBC Communications' $62.6bn takeover of Ameritech.

According to SD, the transaction that "pushed it over the top of last year's total" was the $51bn takeover by AT & T of TCI, announced last week.

"It is a case of deal begets deal begets deal," Mr Peterson said. "Executives are saying, 'if our competitors are doing it why aren't we?'" he said.

Analysts say that the main factors driving the M & A boom have been the strength of the stock market, which has enabled companies to use their own stock rather than cash to complete transactions, and that of the US economy.

So far this year 208 banking deals worth $215.9bn have been announced, representing 23.2 per cent of all announced deals. In the telecoms sector there have been 136 deals worth $120.5bn, representing 12.9 per cent of the total.

The third most important sector has been radio and television broadcasting stations, with 133 deals worth $78.9bn representing a market share of 8.5 per cent.

Investment bankers say that in spite of the growth in the size of the deals there has been little pressure on traditional fee structures that are primarily based on the size of each deal. As a result investment banks are making record profits from their M & A operations.

Outside the US deals worth $386.7bn were announced, compared with $703.3bn for the whole of 1997, according to SD.

"The show will move overseas later in the year," said Mr Peterson. "US firms are acquiring Asian companies at a greater rate than before and the currency change in Europe is likely to enhance the process there."

Japan's small companies suffer worst of downturn

By Gillian Tett in Tokyo

The Bank of Japan yesterday warned that small companies were bearing the brunt of Japan's economic downturn and that there was a danger of a "two-tier" economy as a result.

"We can discern a gap between large and small companies," said Shosaka Murayama, the bank's chief statistician.

Mr Murayama was commenting on the bank's quarterly "Tankan" survey of business sentiment, which provides one of the most closely watched snapshots of Japanese economic conditions. The survey calculates an index of sentiment by measuring the proportion of respondents who are upbeat.

The survey released yesterday showed the index for large manufacturers was minus 38 in June, down from minus 31 in March, better than feared.

The index for large non-manufacturing groups improved to minus 24 in June, up from minus 30 in March. The bank said this was partly as a result of the government's recently announced Y16,700bn ($118bn) stimulus package. Ron Bevacqua, of Merrill Lynch, said: "Barring unforeseen shocks to the economy, it is possible that the economic cycle could bottom this year."

However, the index for small manufacturers and non-manufacturers slipped back to minus 49 and minus 42 respectively, with both categories of companies forecasting even worse conditions in September. Meanwhile, small companies also reported growing problems raising funds, which suggests they are facing a credit crunch as banks cut loans. This result is likely to fuel concerns that the banking sector's woes could further hurt industry in coming months. It could also spur the government to finalise its plans to create a "bridge bank" to help implement banking reform.

The ruling Liberal Democratic party has pledged to produce its proposals for this "bridge bank" on Thursday.

It would have a mandate to take over the assets of any failed bank and maintain lending to sound borrowers, officials said.

The LDP hopes this will boost international investor confidence in the financial sector. But in spite of this, the so-called "Japan premium" – or the additional cost rate of interest that Japanese banks need to pay to raise funds compared with their European and US rivals - yesterday surged.

This premium widened to 54 basis points in the three-month euro-yen markets, about double the level two weeks ago, traders reported.

See Lex

Japan's timebomb

Japan's corporate world may be wallowing in gloom, but yesterday's batch of economic data at least contained one bright spot. The level of company inventories tumbled 1.7 per cent between April and May. The decline is a striking contrast to the recent alarming trend, because last autumn the level of unsold stocks had surged to a five-year high in April. Report, Page 6

CONTENTS

News
European News 2,3
American News 8
International News 4
Asia-Pacific News 6
World Trade News 5
UK News 10
Weather 18

Features
Editorials 17
Letters 16
Management 12
Business & the Law/People 13
Observer 17
Arts 16
Arts Guide 15

Analysis 16,17
Crossword Puzzle 34

Companies & Finance
European Company News 24,26,27
Asia-Pacific Company News 20
American Company News 22
International Company News 25
International Capital Markets 32

Markets
Bonds 32
Bond futures and options 32
Short term interest rates 33
US interest rates 32
Currencies 33
Money markets 33
FT/S&P-A World Indices 41
Europrices 28
World stock markets reports 44
World stock market listings 41
London share service 38,39
FTSE Actuaries UK share indices 40
Recent issues, UK 40
Dividends announced, UK 26
Managed funds service 35-37
Commodities 34
FTSE Gold Mines Index 40

Former White House aide Linda Tripp faces a grand jury today as part of the inquiry into allegations of perjury by President Clinton. Page 8 AP

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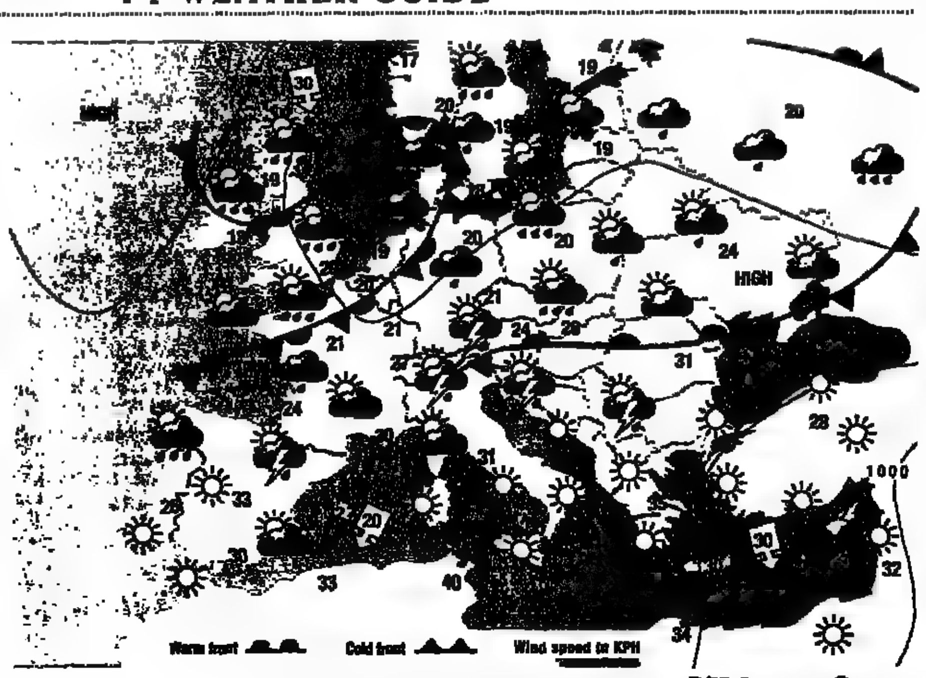
FT WEATHER GUIDE

Europe today

A frontal system will bring showers to Denmark and the southern fringes of Norway and Sweden but it should brighten up. Central and northern parts of Scandinavia will see sunny spells and sharp showers but the Swedish east coast will stay fine. The Low Countries, northern France and northern Germany will be cloudy with rain but there should be sunny intervals this afternoon. Central Europe will be fairly warm with sunny spells and scattered thundery downpours. Much of the Mediterranean will be hot and sunny.

Five-day forecast

Most of the Mediterranean will remain fine and hot with lots of sun. Central and northern Europe will continue changeable with a fair number of heavy showers and thunderstorms. Warm air will affect eastern Europe but north-west Europe will have temperatures near normal for early July.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Fair	38
Accra	Thunder	30
Algiers	Sun	33
Amsterdam	Shower	19
Athens	Sun	35
Atlanta	Fair	37
B. Aires	Fair	16
B.ham	Shower	18
Bangkok	Thunder	33
Barcelona	Shower	29
Beijing	Thunder	35
Belfast	Shower	16
Belgrade	Thunder	30
Berlin	Shower	20
Bermuda	Fair	29
Bogota	Thunder	19
Bombay	Rain	31
Brussels	Shower	20
Budapest	Shower	26
C.hagen	Shower	18
Cairo	Sun	34
Caracas	Sun	32
Cardiff	Shower	18
Casablanca	Fair	24
Chicago	Fair	29
Cologne	Shower	27
Dakar	Sun	29
Dallas	Sun	98
Delhi	Fair	29
Dubai	Cloudy	41
Dublin	Shower	18
Dubrovnik	Sun	31
Edinburgh	Shower	19
Faro	Sun	27
Frankfurt	Shower	22
Geneva	Shower	27
Gibraltar	Sun	29
Glasgow	Shower	19
Hamburg	Shower	17
Helsinki	Shower	19
Hong Kong	Thunder	32
Honolulu	Fair	31
Istanbul	Sun	30
Jakarta	Fair	32
Jersey	Rain	18
Johannesburg	Sun	16
Karachi	Cloudy	37
Kuwait	Sun	48
L. Angeles	Sun	25
Las Palmas	Fair	25
Lima	Cloudy	22
Lisbon	Fair	28
London	Shower	20
Lux.bourg	Rain	21
Lyon	Thunder	27
Madeira	Fair	24
Madrid	Sun	33
Majorca	Fair	32
Malta	Sun	36
Manchester	Shower	18
Manila	Thunder	34
Melbourne	Shower	12
Mexico City	Thunder	32
Miami	Shower	33
Milan	Thunder	31
Montreal	Rain	25
Moscow	Shower	20
Munich	Thunder	24
Nairobi	Fair	24
Naples	Sun	34
Nassau	Thunder	32
New York	Thunder	[illegible]
Nice	Fair	30
Nicosia	Sun	[illegible]
Oslo	Shower	20
Paris	Rain	21
Perth	Fair	18
Prague	Shower	21
Rangoon	Thunder	30
Reykjavik	Sun	14
Rio	Fair	28
Rome	Sun	31
S. Frsco	Sun	21
Seoul	Thunder	29
Singapore	Thunder	31
Stockholm	Fair	19
Strasbourg	Shower	24
Sydney	Rain	15
Tangier	Fair	24
Tel Aviv	Sun	32
Tokyo	Fair	27
Toronto	Shower	28
Vancouver	Sun	22
Venice	Fair	29
Vienna	Shower	24
Warsaw	Shower	20
Washington	Thunder	33
Wellington	Rain	14
Winnipeg	Sun	24
Zurich	Shower	26

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FINANCIAL TIMES
COMPANIES & MARKETS
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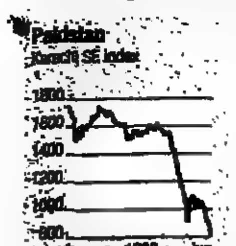
TUESDAY JUNE 30 1998
Week 27

INSIDE

Turkish family empire opens up
Koç Holding, Turkey's biggest private company, likes to boast that every Turkish household owns a product it makes. From cars and washing machines to bank accounts and tomato paste, the company's products are ubiquitous. But it is only now, with a $300m share offer aimed exclusively at international investors that the curtain is rising on the secretive family empire. Page 25

Power fight weakens Karachi



Pakistan's stock market fell 7.5 per cent after the rupee was devalued by 4 per cent at the weekend. However, the market's weak tone has been blamed on the cancellation of a private power generation project after its owners were accused of bribing officials under a previous regime. Confrontation between the government and the power companies could lead to large losses for investors and add to the pessimism among foreign businesses over investing in Pakistan. Page 44

Engineers see opportunity in Asia
As south-east Asia has slid into turmoil, Britain's engineering companies have held their breath. Much of the industry would suffer almost immediately if investment by Asian countries were to fall. But many companies point to good longer-term prospects and specific business opportunities linked to the crisis. Page 27

Bata battles back to profit
When Bata India made a record loss of Rp422m ($9.88m) in 1995, everyone but the octogenarian Thomas J. Bata, chairman of parent group Bata Shoe Organisation, thought it was the end. But 1997's profits and a good start to 1998 confirmed Mr Bata's belief that a shoe venture could not fail in India if it was well managed. Page 20

Volume of UK new issues recovers
London's equity new issues market posted a strong recovery in the second quarter of this year after a sharp slowdown in the first three months. First-quarter activity this year was the weakest for six years, but smaller companies are now returning to the limelight. Page 32

Asian worries fail to slow Europe
The split between developed and emerging markets was shown again as several European markets hit new highs. After Pakistan devalued, there was further pressure on South Africa, where the rand fell sharply, and Russia, where the RTS share index dropped more than 6 per cent. Page 44

CFTC consults over foreign screens
The Commodity Futures Trading Commission, the agency that regulates futures markets in the US, is to invite comments on how widely non-US exchanges should be permitted to distribute electronic trading terminals within the US. Page 32

COMPANIES IN THIS ISSUE

AHP	1	Meespank	2
AT&T	22	Merrill Lynch	28
ATR	5	Mirror Group	26
Abbot	26	Mitsubishi Electric	5
Advance Agro	24	Molins	29
Alcoa	34	Monsanto	1
Argentaria	24	Motorola	25
BW	28	Munich Re	34
Bata	20	NEC	5
BoJ	18	Nomai	21
Brown & Root Servs	22	Oriental Brewery	20
Bufete	22	PAL	25
Cammell Laird	27	Pemex	8, 22
Cargill Group	1	Petrol Ofisi	2
Cathay Pacific	24	Pick 'n Pay	24
Charterhouse	24	PowerGen	26
ChoongAng Seed	22	Proleg	25
Cockerill Sambre	34	Proton	25
Compaq Computer	22	Psion	40
Cretabank	24	PwC	34
Daimaru	20	RCH	27
Desia	24	RSL	25
Digital Equipment	22	Raab Karcher	28
Dominion Resources	28	Railtrack	40
EFG Eurobank	24	Rockwell	19
East Midlands	28	Rothschild (NM)	27
[illegible]	24	SKF	19
EgyptAluminium	34	SNCF	5
Electrolux	25	Samsung	5
Endesa	5	Securitas	25
Enso	24	Seminis	22
FirstKey	5	Severn Trent	40
GE	20	Shell	24
GKN	40, 28, 27	Siebe	27
GTE	22	Southern Electric	40
General Motors	19	Stagecoach	40
Glaxo Wellcome	27	Stena Line	2
Glynwed	27	Swissair	24
Grupo R	22	TCI	22
Houston Industries	28	TI	27
Hungnong Seed	22	Tate & Lyle	40
Hyundai Electronics	20	Taylors of Harrogate	1
Hyundai Motor	20	Telefónica	22
ICO	5	Thames Water	40
IMI	27	Thyssen Krupp Stahl	24
Iberdrola	5	Tobu Railway	20
Império	24	Toshiba	20
Incentive	25	Unilever	40
Intel	22	Unión Fenosa	5
Interbrew	20	United Utilities	40
Iomega	22	VA Stahl	24
Koç	25	VAE	24
LSL Biotechnologies	22	Vossloh	24
Lasmo	40	WPP	26
LucasVarity	27	Weir	27
		[illegible]	2

CROSSWORD, Page 34

MARKET STATISTICS

Annual reports club	38, 39	Emerging Market bonds	32
Benchmark Govt bonds	32	FTSE Actuaries share indices	40
Bond futures and options	32	Foreign exchange	33
Bond prices and yields	32	Gilts prices	32
Commodities prices	34	London share service	38, 39
Dividends announced, UK	25	Managed funds service	35-37
EMS currency rates	33	Money markets	33
Euro prices	28	New intl bond issues	32
Eurobond prices	32	Recent issues, UK	40
Fixed interest indices	32	Short-term int rates	33
FT/S&P-A World Indices	41	Stock markets at a glance	43
FTSE Gold Mines Index	40	US interest rates	32
		World stock markets	41

SKF announces cost cuts

Jobs to go, plants to be closed in $212m restructuring

By Tim Burt in Stockholm

SKF, the world's largest manufacturer of rolling bearings, yesterday unveiled a SKr1.7bn ($212m) restructuring designed to improve margins by closing factories, reducing stocks and cutting the workforce by 10 per cent.

The Swedish group, which supplies components for every type of machinery using rotating parts, said 4,000 employees would lose their jobs. An overhaul initiated last autumn involved only 2,000 job losses.

Most of the cuts are expected at plants in western Europe and North America, although the company declined to specify which of its 80 sites would be affected. Peter Augustsson, chief executive, blamed the cost-cutting drive on worldwide over-capacity in the industry and fallout from the economic crisis in Asia, where demand has dropped sharply in the past six months.

He warned that the group was also facing intense pricing pressures in other markets and that second quarter profits would not match the SKr461m achieved in the first three months of the year.

"Our operating margins are down to between 6 and 7 per cent and this is unacceptable," Mr Augustsson added. "We can no longer afford to defend our market share by subsidising unprofitable businesses from higher margin areas."

The move, following a two-year review by Mr Augustsson, reflects growing impatience at Investor – SKF's largest shareholder and the main investment vehicle of Sweden's Wallenberg business empire – with underperforming stocks in its portfolio. Mr Augustsson said the overhaul would help lift margins to 10 per cent and improve annual operating earnings by SKr1.5bn from 2000 and beyond.

SKF's most commonly traded B shares, however, fell more than 5 per cent SKr8 to SKr143 – against a 12-month high of SKr238 – as industry analysts gave a mixed reception to the restructuring. Since the start of this year, the shares have underperformed the Swedish stock market by 20 per cent.

Several analysts expressed dismay at the continuing pricing difficulties and warned that the reorganisation did not go far enough. "It is very ad hoc and there is no evidence of a clear strategy behind it," said one European engineering broker in London.

Under the restructuring, Mr Augustsson signalled SKF would cut its inventory costs by SKr1bn to SKr9.5bn over the next two years and increase its emphasis on after-market sales. The group is also expected to withdraw from loss-making areas in automotive and textile machinery components, reducing its total product range by 20 per cent.

In addition to a SKr700m provision announced last autumn, SKF will take a further SKr1bn in charges in the second and third quarters. Even before such charges, pre-tax profits are expected to remain flat this year.

Observer, Page 17

Strikes set to cut deep into GM's profits

By Richard Tomkins in New York

Wall Street analysts are warning of a severe profit downturn at General Motors as strikes at the US car manufacturer enter their fourth week.

Lehman Brothers yesterday predicted GM's second quarter earnings would tumble from $3.21 a share last year to 70 cents, while earlier it had forecast $2.10.

This followed a downgrading on Friday by Goldman Sachs, which said it was cutting its second quarter earnings estimate for GM from $2.40 to $1.00.

For the full year, Goldman Sachs dropped earnings per share forecast from $8.50 to $7.40, and Lehman Brothers dropped its figure from $7.91 to $6.51. Last year, GM made net profits of $6.7bn, or $7.90.

Wall Street analysts had been waiting for signs of an end to the strikes before altering their profit forecasts for GM. But given it is the end of June, the effects on the second quarter can be estimated.

The company also began its annual two-week summer shutdown yesterday, providing time for the calculations to be made.

GM's North American operations have been paralysed by strikes called this month by the United Auto Workers union at two GM component plants in Flint, Michigan.

Goldman Sachs said the strikes had cost GM 240,000 units of lost output, wiping $936m, or $1.40 a share, off after-tax profits. Each day the strikes meant GM lost more than 20,000 units of output, costing it $78m, or 12 cents a share, in after-tax profits, Goldman Sachs added.

Lehman Brothers said the strike was costing GM more than $80m a day, or 11 cents to 12 cents a share in after-tax profits: "To put this in perspective, if the strike lasted a full quarter, it would cost GM almost $6bn, or $8.60 a share. All of a sudden, GM's $14bn war chest doesn't look so excessive. GM is in a no-win situation. It desperately needs to get cost-competitive in order to survive over the long term. The market, however, appears to have serious doubts about the returns that GM will get on this 'investment'."

GM's shares, which have fallen about 10 per cent since the strikes began, were up $1¼ at $68⅜ at noon in New York yesterday, as talks between the company and the UAW resumed.

Members of the Auto Workers Union make their point on the picket line. Talks have resumed, however

Rockwell to sell computer chip arm

By Christopher Parkes in Los Angeles

Rockwell International is to join the retreat from computer chip manufacture and reduce its workforce by 10 per cent in a $625m restructuring announced yesterday.

The former military contractor, which has struggled to settle on a strategy since its withdrawal from defence and aerospace in 1996, and last year's spin-off of automotive components, said it will dispose of its semiconductor arm by the end of the year.

Following Texas Instruments' sale of its memory business and Digital Equipment's disposal of its semiconductors operations, the move by the leading maker of chips for computer modems marks a further stage in the shake-out of an industry increasingly dominated by Intel.

"The Asian financial crisis and dramatic changes in the personal computer industry have temporarily impacted our businesses," said Don Davis, Rockwell chairman and chief executive.

While industrial automation had also suffered from the Asian turmoil, the underlying fundamentals remained strong, and avionics – the other main profit centre of the restructured company – was growing 18 per cent this year as demand increased for airliners, he said.

However, Rockwell's plans to impose 3,000 of the 3,800 group-wide job cuts in its automation business reflected an attempt to cut costs and sharpen competitiveness in preparation for the expected rebound of Asian demand for factory modernisation.

Mr Davis admitted the crisis had exposed the poor fit between Rockwell's main interests. The dynamics of semiconductors were very different in terms of investment needs, products and markets, he said.

He predicted the changes, with the spin-off to existing shareholders expected to be completed by the year's end, would save the group about $100m before taxes next year, rising to $200m by 2001.

He expected third-quarter profits for this year, excluding the $625m pre-tax restructuring charge, of 45 cents a share, about 20 per cent lower than last time. Avionics earnings were expected to be good, automation was slightly below target, and semiconductors were "well below plan" Mr Davis added. He expected earnings from continuing operations for the year to the end of September of $2.30, compared with $2.12 a share last time, and earlier Wall Street estimates of $2.78. Long term, revenues were expected to grow 8 per cent annually while earnings improved in "low double-digit" increments. Although Mr Davis offered no earnings predictions for the stand-alone Semiconductor Systems, which would have annual sales of $1.3bn and 7,000 employees, he said he expected sales growth of at least 15 per cent.

Lex, Page 18

Consolidation quickens in European derivatives

By Edward Luce in London and David White in Madrid

Matif, France's futures and options exchange, is discussing a link with its counterparts in Italy, Belgium and Portugal in a process that is expected to result in the rapid consolidation of Europe's derivatives industry.

The talks come after Matif's link at the weekend with Meff, the Spanish derivatives exchange, and follow a flurry of activity among Europe's derivatives exchanges ahead of economic and monetary union in January.

At present there are eight derivatives exchanges across the 11 countries that will join the first wave of Emu. But industry executives believe that by the end of the year the exchanges within the eurozone will have consolidated into two alliances or, more likely, one grand alliance.

This would leave the London International Financial Futures Exchange – the second largest exchange in Europe after the Deutsche Terminbörse – as the only serious competitor to the alliance. "The logic of consolidation in Europe is inescapable," said an executive at a European exchange. "For the smaller exchanges the choice is between joining the alliance or ceasing to exist."

The drive towards a single alliance of exchanges is a consequence of Emu, under which 11 currencies – and the derivatives contracts based on them – will disappear. The derivatives contracts will be replaced by a series of benchmark contracts based on the euro.

Executives at Matif, which is Europe's third largest exchange but has only 20 per cent of the volumes recorded at Liffe and the DTB, want the alliance to expand rapidly. As well as the planned link with Barcelona-based Meff, Matif will shortly enter an alliance with Eurex – the result of a merger between the DTB and Soffex, the Zurich exchange.

"We are very keen to extend this agreement [with Meff] to other exchanges in the near future," said Philippe Loumeau, head of strategy at SBF, the French stock exchange that owns Matif.

Under the agreement, members of Meff will be able to trade products listed on Matif through Meff's electronic trading system. To trade products listed on Meff, members of Matif will have to – as is already the case – go through a clearing member on the Spanish exchange. So in practice the agreement will make it easier for the Spanish to trade products on Matif than vice versa.

It is unclear whether members of Meff will be able to trade products listed on the DTB after Matif has established a common trading platform with Frankfurt next year.

The tie-up between Matif and Meff will be followed by a similar link in equity derivatives between Monep, Matif's sister body, and Meff's Madrid operation.

The future of futures, Page 16

Sonera lifts stake in Latvian telecoms operator

By Alan Cane in London and Matej Vipotnik in Tallin

Sonera, the former Telecom Finland, has bought Cable and Wireless's interest in Lattelekom, the Latvian national operator, in a deal which strengthens the Finnish company's presence in both fixed and mobile telephony around the Baltic Sea.

It paid $240m in cash for C&W's 83 per cent stake in Tilts Communications, a Danish holding company that has a 49 per cent stake in Lattelekom. Sonera already holds 27 per cent of Tilts.

The Danish company was formed by C&W and Sonera in 1994 to manage their interest in Lattelekom. Sonera becomes the second largest shareholder in Lattelekom, after the Latvian state with a 45 per cent shareholding.

The deal followed the purchase last week by Sonera of a 30 per cent stake in Lithuania's national telecoms operator, Lietuvos Telekomas, in a privatisation issue. Sonera now has more fixed and mobile customers abroad than within Finland. It also has interests in the fixed network business in Estonia and in mobile phones in both Estonia and Latvia.

Kaj-Erik Relander, Sonera executive vice-president, said expansion outside the mature Finnish market was imperative: "We have the problem that we are running out of citizens," he said. The Lattelekom deal also provided the company with a gateway to the Russian market.

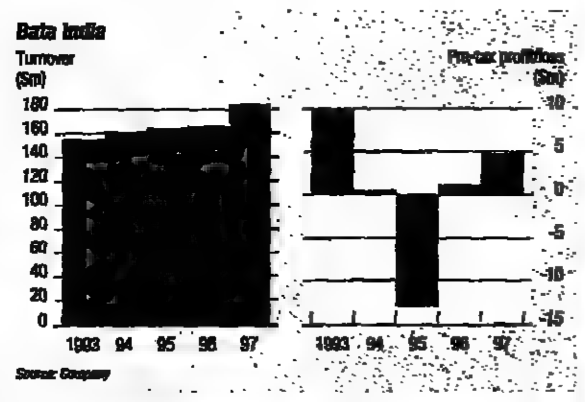
Lattelekom made operating profits of $28m on turnover of $164m last year. It has a 23 per cent stake in the mobile operator Latvijas Mobilais Telefons, in which Sonera holds 24.5 per cent.

On its formation, Tilts was granted a 20-year monopoly in fixed-line services in order to protect its investment in upgrading its network. But this has since come into conflict with European Union and World Trade Organisation telecom rules. Latvia is trying to implement these rules to gain accession to the two bodies.

The sale is part of C&W's policy of disposing of assets where it has neither influence nor control. It said yesterday it had made a £70m ($117m) profit on the sale.

Bata India recovery based on cheaper end of market

Shoe maker's cost reduction and return to roots is working, says **Kunal Bose**



In 1995, when Bata India made a record loss of Rp422m ($9.88m), everyone except the octogenarian Thomas J. Bata, chairman of parent group Bata Shoe Organisation, thought the Indian venture had come to the end of the road.

But 1997's respectable profits of Rp167m and the good showing so far this year confirmed Mr Bata's belief that a shoe venture cannot go wrong in a populous country such as India, provided it is well managed.

Bata India, 51 per cent owned by Bata Shoe Organisation of Canada, was helped quickly back to health by the spirited intervention of BSO. The parent seconded expatriate managers with experience in reviving sick units and making fresh investments and extended an interest free loan of $10m.

In February, during his second visit to Calcutta in three months, Mr Bata laid to rest speculation about BSO's commitment to India. "We are not disinvesting in India, that's for sure," Mr Bata said. He also promised the company would not downsize.

But workers at the factory near Calcutta, the largest of the five manufacturing units in the country, have come to accept that unless there is marked improvement in productivity, Bata India's progress cannot be sustained.

According to A. L. Mudaliar, chairman, the jump in profit from Rp41.5m in 1996 to Rp176m "is an impressive achievement considering the group's recent past. But the profits are still not at the level which the board considers satisfactory".

At the end of 1997 the company had still to clear losses of Rp195m. Mr Mudaliar says the group will have a clear balance sheet at the end of this year. The company says it will soon resume paying a dividend – the last payout was in 1993.

Bata India, the largest producer of shoes in the country and employing 15,000 people, ran into trouble when it focused on the upper end of the market at the expense of low and medium priced shoes, traditionally the group's mainstay.

Mr Mudaliar says: "There was a misjudgment about the focus. We are on the verge of eroding our network. The last three years was a period of fierce trouble when many hard decisions were taken. The support of BSO during this period was invaluable."

The company has had to cut costs. "We sold our stately head office building and consolidated offices all over the country. We are today much more efficient in the use of raw materials and we are keeping strict vigil on inventories. The management structure has been flattened. There is no longer any wasteful expenditure," it says.

Last year, it sold 57.1m pairs of shoes, up 14 per cent on 1996. In spite of the slowdown in the economy, the sales growth rate in 1998 will be even better.

M. G. V. Middleton, deputy managing director, says: "Bata India has rediscovered itself. We are introducing more and more new products at affordable prices. The emphasis is on low and medium priced shoes. But we are not abandoning the upper end of the market."

The switch is allowing Bata India to make better use of capacity at its five factories.

"Our strategy is to maximise production at our own factories. We will procure shoes which we should not be making ourselves. Profit consideration will decide what we should make and sell," says Mr Mudaliar.

Last year it procured 23.6m pairs from small shoe manufacturers.

Mr Middleton says: "The Indian company is continuously sourcing technical know-how and designs from BSO."

The company is streets ahead of its competitors because of its strong brand name and a country-wide chain of more than 1,000 stores, which are being upgraded. The management believes that if it is to retain the loyalty of customers, they must be able to buy quality Bata shoes in "pleasant surroundings".

Navin Suchandi, managing director of Pressman Finance, says: "What really bailed out the company was the interest free loan for $10m given by BSO in March 1996. It could mobilise Rp772m to a rights offer in January 1997 because the Indian shareholders knew that BSO was supporting Bata India up to the hilt. The rights issue funds and also Rp270m cash generated from business were used to retire debts and pay off creditors. As a result, interest costs fell sharply to Rp144m from Rp193m in 1996."

However, new budget proposals could add Rp15.2m to the company's excise duty bill and although Mr Mudaliar says the company will raise prices where possible, scope is limited while the company remains focused on value-for-money footwear.


Rebuilding: Thomas G Bata, left, son of chairman Thomas J Bata, right, with founder Thomas Bata, background

Daimaru to close stores as sales dip

By Alexandra Harney in Tokyo

Daimaru, the Japanese department store chain, is to close stores in Hong Kong, Thailand and France by the autumn.

The move comes amid a wave of closures of overseas outlets by Japanese retailers, as sales volumes are hit by Japan's economic decline and the financial crisis in south-east Asia.

Daimaru said it planned to liquidate three companies – Daimaru France, Hong Kong Daimaru, and Thailand Daimaru – after closing the stores, and to sell an outlet in Thailand to a local operator. As a result, the company expects to report a Y14bn ($99m) extraordinary loss.

Plans to open new stores, including one in Taiwan, would not be affected, the company said.

The Japanese retail industry has been suffering from the double effects of turmoil in Asian and Japanese markets. Wholesale and retail sales are sharply down, with department store sales slipping 0.4 per cent in May.

Last year, earnings at Daimaru fell 11.6 per cent to Y2.14bn, on turnover down 0.6 per cent to Y504.77bn.

This year, Daimaru announced the closure of stores in Lyon and Bangkok.

However, analysts said Daimaru had been slow to react to changing market conditions. "I think Daimaru has been slow to restructure its overseas business. It is a big commitment to close stores, and I think Daimaru did not have enough room to close their stores earlier," said Toshiko Binder, retail analyst at HSBC James Capel in Tokyo.

The company is burdened by debt payments which are high even for the Japanese retail industry. Moody's, the credit rating agency, yesterday put Daimaru's senior unsecured debt on review for a downgrade.

Daimaru is currently rated Ba1.

NEWS DIGEST

CARMAKING

Hyundai Motor seeks more than 4,800 redundancies

Hyundai Motor, South Korea's largest carmaker, yesterday said it planned to proceed with the country's first mass industrial redundancies by seeking permission from the labour ministry to cut more than 4,800 workers from its payroll. The group said a 50 per cent fall in domestic car sales this year had forced it to take the action. The company's workers, who are among the most militant in Korea, vowed to strike in protest.

Hyundai had earlier said it planned to cut its workforce by nearly 20 per cent, or nearly 8,200 workers. Almost half that number have agreed to take early retirement. The latest job cuts include 3,720 factory employees and 1,100 office staff.

If the labour ministry gives its approval, Hyundai plans to begin the redundancies at the end of July and complete them by the end of the year. **John Burton, Seoul**

RAILWAYS

Tobu falls into the red

Tobu Railway, the privately owned Japanese rail operator, moved into the red last year, with consolidated losses of Y19.5bn ($137m), compared with a profit of Y4.9bn the previous year. The results reflect a decline in passengers due to higher unemployment, a poor performance by the leisure business and the collapse in land prices in Japan last year, analysts said.

The company suffered a Y47bn loss on property assets, while the leisure business, including hotels, restaurants, and amusement parks, recorded Y5.3bn in losses. Turnover fell 0.3 per cent, from Y357.2bn to Y356.2bn.

The company forecast a return to profit next year, with earnings of Y1.5bn on sales up almost 50 per cent to Y605bn. The stock closed at Y360 in Tokyo yesterday.
Alexandra Harney, Tokyo

MICROPROCESSORS

Hyundai Electronics sells US unit

Hyundai Electronics is selling Symbios Logic, its US non-memory subsidiary, to LSI Logic for $760m cash. The South Korean group last week cancelled a proposed $775m sale of the unit to Adaptec because of opposition from the US Federal Trade Commission. It is selling the unit to raise cash to finance its struggling memory chip business, which reported a loss of $130m last year. Hyundai last week announced it was indefinitely suspending construction of a chip plant in Scotland.

News of the deal sent LSI shares up $⅝ to $23⅞ in early trading.
John Burton and agencies

BREWING

Korean group in Belgian link

Oriental Brewery, South Korea's largest, yesterday said it would transfer all of its beer-related operations to a new joint venture with Interbrew of Belgium, which plans to invest up to $250m. The deal is part of the restructuring of Doosan, OB's parent, which is selling assets to reduce debts. **John Burton**

Toshiba and GE link in power venture

By Alexandra Harney

Toshiba, the second-largest Japanese electronic machinery manufacturer, is to produce steam turbine aerofoils for electric power generation in a joint venture with General Electric, the US conglomerate.

The move is the latest attempt to bolster profits at Toshiba, as the company meets tough conditions in domestic and Asian markets.

The agreement will establish two companies in Japan and Mexico. Toshiba Turbine Components, in which Toshiba will invest Y900m ($6.4m) is to be 51 per cent owned by Toshiba and 49 per cent owned by GE. GE Toshiba Turbine Components de Mexico will be 34 per cent owned by Toshiba and 66 per cent owned by GE.

Production is expected to begin at both sites in spring 1999. Toshiba would not disclose expected sales or production volumes.

However, analysts said the tie-up was unlikely to help profitability at Toshiba, where earnings plunged 89 per cent last year from Y67bn to just Y7.3bn. "Everyone is having a tough time in the power generation market. But this deal is probably insufficient to offset the negative trends in underlying demand in Japanese and Asian markets," said Scott Foster, electronics analyst at ING Barings in Tokyo.

Toshiba already has agreements with GE and Hitachi to make power generation equipment. This month, it announced plans to take an equity stake in Walsin Lihwa Group, a Taiwan electronics company, to jointly produce computer memory. Toshiba's stock rose Y10, or 1.8 per cent, to close at Y565 in Tokyo yesterday.

MORGAN

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MORGAN STANLEY DEAN WITTER

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June 30, 1998

Compaq gives details of factory closures

By Louise Kehoe in San Francisco

Compaq Computer yesterday identified several factories and assembly operations it planned to close as it consolidates its worldwide manufacturing operations, following the acquisition of Digital Equipment.

Compaq said its objective was to be able to deliver 95 per cent of all its products anywhere in the world within five days or less.

"Integrating all Compaq manufacturing operations into a single, cohesive organisation is essential as we build the future Compaq," said Eckhard Pfeiffer, chief executive.

A total of 5,000 manufacturing jobs will be lost. The cuts are part of a 17,000, or 20 per cent, workforce reduction announced earlier this month. Also included in the total were numerous administrative and support jobs. About 15,000 Digital employees will lose their jobs, and about 2,000 at Compaq.

Several of the closures were in regions where both Compaq and Digital have manufacturing operations. In Scotland, for example, Digital's personal computer plant in Irvine is to be closed and operations shifted to Compaq's plant in Erskine.

However, Compaq's customer service organisation, currently based in Erskine, will move to Irvine.

In Stirling, Compaq will close a plant previously owned by Tandem Computers, which it acquired a year ago. The manufacturing operations will move to Erskine.

In Singapore, Digital's manufacturing operations will be consolidated at the existing Compaq plant. In Shenzhen, China, a Compaq plant will close. Production will be shifted to outside suppliers in the province.

In Sydney, Australia, a Digital computer configuration centre – where computers are assembled to suit local needs – will be consolidated with Compaq's operations in Rydalmere. Compaq will also phase out operations at a Digital facility in Taiwan over the next six months. Operations in Japan will also be consolidated.

In South America, the axe will fall on Digital's manufacturing plant in São Paulo, Brazil. Digital's Canadian manufacturing plant will be "resized" as a configuration centre.

At Compaq's Houston, Texas, headquarters, circuit-board manufacturing operations will be closed. Regional distribution operations throughout the US will also be consolidated.

Greg Petsch, senior vice-president at Compaq, said the company was committed to becoming the lowest-cost computer maker in the world, "as measured across the entire supply chain".

AT&T/TCI TAKEOVER DEAL EXECUTIVES PLAY DOWN FEARS ON SPENDING

Wall St doubtful about costings

By Richard Waters in New York

TCI has what AT&T most covets – the cables into customers' homes which would allow the telecommunications company to by-pass the networks of the Baby Bells, its arch rivals. But, to judge by the reaction so far, Wall Street does not believe this will be either a cheap or easy way for Ma Bell to get into local telephony.

Both the capital investment needed, and the technological challenge of completing the task, have raised doubts. AT&T is about to buy cable networks that are "neither well upgraded nor particularly well clustered", said Anne-Maria Kovaks, an analyst at Janney Montgomery Scott.

Almost as soon as the ink was dry on the deal, industry observers were projecting big additions to AT&T's capital spending budget, which already stands at $8bn a year.

Executives from the two companies say the fears are overblown. The job of adding two-way capability to TCI's networks to make it possible to carry voice calls will cost $1.8bn in total, according to Leo Hindery, the company's president. Some $400m of that had already been spent, and the task would be finished in late 2000, he added.

On top of that, AT&T said it expected to spend between $400 and $500 for each residential customer who opted to receive telephone and high-speed data down TCI's cable. If the company hit its target of a 30 per cent penetration rate of TCI customers within five years, the capital investment would come to "under $5bn", said Dan Somers, chief financial officer.

For that investment, AT&T hopes to generate between $2bn and $3bn in revenues from local telephony by 2002, with about the same coming from high-speed data services.

An earlier attempt to break into the local markets through reselling the service of the Baby Bells – and one which has since been scrapped – cost $4bn and produced revenues of less than $100m.

John Malone: well versed in constructing attractive securities AP

Unease among investors

By Richard Waters

AT&T's standing as the most widely-held stock in America is likely to prove a mixed blessing for the company over the coming months.

The strong familiarity – even sentimental attachment – to the stock, long a component of the Dow Jones Industrial Average, may help explain some of the uncertainty that has rippled across Wall Street in the days since the company announced its plans to pay about $33bn for TCI.

By announcing plans to issue separate "tracking stocks" to reflect the performance of different parts of the group, Michael Armstrong, chairman, has raised questions about the future characteristics of a security that is a staple of amateur investors' portfolios.

The doubts hang most clearly over a new class of stock that will be issued to reflect the performance of the combined residential business of AT&T and TCI.

"It'll be hard to get value investors to look at the consumer company," said Stephanie Comfort, an analyst at Morgan Stanley Dean Witter – a reference to the many investors who have bought AT&T's stock based on its low earnings multiple relative to other stocks.

"There's a concern among institutions that [AT&T] paid a lot of money," says Michael Mahoney, who manages the AIM Global Telecommunications fund. "But I'm not sure that vast retail shareholder base pays a lot of attention."

The early concerns that rippled around the institutional investment world late last week were enough to prompt AT&T to take the unusual step of convening a second conference with Wall Street analysts to give a more detailed picture of their plans. And, to judge by the small rebound in the share price yesterday morning, they have at least succeeded in ending the slide.

Besides fears about the price of the deal, two other concerns have cast a shadow over the AT&T share price: doubts about the tracking stock structure, and fears that the TCI deal may be followed by others, diluting the company's earnings per share still further.

While many institutional investors profess a dislike of tracking stocks in general – they are often used as a way for companies to raise capital from selling an interest in a business while not giving up any control – AT&T is at least being given the benefit of the doubt. John Malone, chairman of TCI, has "a long and distinguished career in constructing attractive securities", said Rob Donahue of Salomon Asset Management.

According to Mr Armstrong, however, the telecoms analysts who have long followed AT&T are not accustomed to valuing companies on the strength of their cash flow, rather than earnings, and so have failed to put a full value on the proposed consumer unit.

Wall Street offers an alternative view: since AT&T will continue to own an estimated 80 per cent of the stock in the consumer company, it will still be weighed down by the unit's heavy debts. Also, if the new stock is used to mount other acquisitions, the parent company's earnings per share will be diluted further.

To ease those concerns, AT&T said it planned to create a new class of convertible security in the consumer company, to be held by the parent and accounting for roughly a third of the unit's $16.5bn of debts. By paying tax-free dividends on those securities, the unit would be able to convert its own cash flow into net income for the parent, said Mr Armstrong.

He also said AT&T would not buy a big foreign telecoms company, and played down the possibility of buying more cable television systems in the US.

Bufete secures $173m oil rig deal

By Henry Tricks in Mexico City

Bufete Industrial, the Mexican construction company beset by worries over debt payments due shortly, said yesterday it had won a $173m share in a $520m contract to build off-shore oil rigs for Pemex, the state oil company.

The contract was won in a joint venture with Commisa, a partnership between US-based Brown & Root Services and Mexico's Grupo R.

"In terms of new awards, this is one of the most important developments for Bufete in at least the last year," said Ben Uglow, Latin American cement and construction analyst at Robert Fleming in New York. It represents about one-third of Bufete's $512m order backlog on March 31.

But the contract was not expected to ease Bufete's short-term debt problems. According to Mr Uglow, Bufete has more than $200m in net debt, of which just under half comes due in the next four months. Standard & Poor's, the US credit rating agency, recently downgraded Bufete because of its high leverage and the pressure this puts on cash flow generation.

The company's share price climbed 8 per cent in early trading yesterday on the Pemex news, to 19 pesos. The stock has rebounded in the last week, climbing from a 12-month low of 8.5 pesos.

The recovery has sparked speculation that Bufete may be close to settlement with the Federal Electricity Commission on a long-awaited payment of at least $65m, which it hopes to use to pay down debt.

NEWS DIGEST

TELECOMMUNICATIONS

Telefónica to enter bid for Puerto Rico operator

Telefónica, Spain's main telecommunications group, will enter a competitive bid today to buy control of the Puerto Rico Telephone Company, the local operator for which GTE of the US has made a $375m offer. Details of the bid have not been disclosed and under the rules of the operator's privatisation GTE will have five days in which to respond to the Spanish group's bid.

Telefónica's counter-offer forms part of a strategy to enter the Hispanic market in the US in association with its international partners WorldCom and MCI, the two US operators which are awaiting regulatory approval for their planned merger. The Spanish group, which operates the largest foreign telecoms franchise in Latin America, already controls 79 per cent of Telefónica Larga Distancia, Puerto Rico's long-distance operator.

The bid for the local operator opens a second acquisition front for Telefónica, as it studies bids for parts of Telebrás, the vast Brazilian telecoms network that is due to be privatised next month. Two weeks ago a Telefónica-led consortium acquired outright control of CRT, the Brazilian regional telecoms operator. Tom Burns, Madrid

SEEDS

Seminis expands in Asia

Seminis, the fruit and vegetable seed company owned by Mexico's Empresas La Moderna, said yesterday it had acquired two Korean vegetable seed companies as part of more than $145m in new investments. It paid $117m in cash for Korea's Hungnong Seed and ChoongAng Seed. It also raised its stake in Nath Sluis, an Indian agrobiotechnology company, from 50 to 80 per cent with a $1.5m payment.

Seminis will also forge a strategic alliance with LSL Biotechnologies of the US, setting up a company to research technology extending the shelf life of tomatoes. It will pay $27m for a 50 per cent stake. Henry Tricks, Mexico City

STORAGE SYSTEMS

Iomega agrees French deal

Iomega, the US-based personal storage device manufacturer best known for its Zip drives, is to buy a majority stake in Nomai, the France-based manufacturer of removable storage systems, and settle its litigation against the French group. The settlement ends a legal battle between the two companies which began in March last year when Iomega accused its French rival of infringing its intellectual property.

However, during the most recent settlement discussions, Nomai and Iomega discussed the potential benefits of an Iomega investment in Nomai, including the possible acquisition of the French group.

These discussions led to agreements on stock acquisition and technology assignment. Under the former, Iomega will acquire a majority interest in Nomai, from its principal and other major shareholders, for FFr188 a share, or about $21m in total. Iomega will then conduct a tender offer, as required by French law, offering all other Nomai stockholders the opportunity to sell their shares to Iomega for the same price. The US group will also pay $3m to acquire certain technology owned by Nomai. Paul Taylor

SEMICONDUCTORS

Intel unveils new chip

Intel yesterday unveiled its latest chip, the Pentium II Xeon, which will take the company into new markets, providing microprocessors for high powered workstations and servers. IBM, Compaq, Dell and Data General, to name just a few, announced products based around the new chip. Workstations – one step up from a PC – will be available from today, priced at about $5,000, bringing Intel into this market for the first time, where its products will compete with Sun Microsystems.

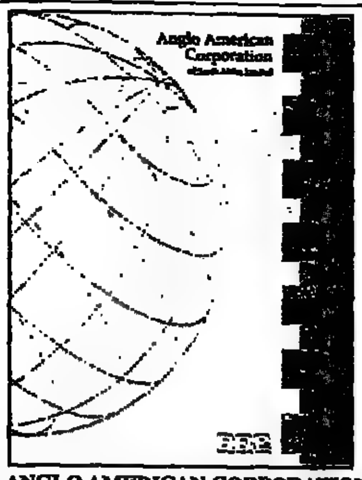
Intel also plans to develop the new chip, in sets of four, to drive high-powered servers large enough to run a small business. However, this has been delayed by bugs in the system. Intel yesterday suggested the problem was not serious, saying it needed another three weeks of validation before supplying the product to computer manufacturers.

NCR, which plans to build servers using the new Xeon four chip set, said it aimed to have products available before the end of this year. It added that the new chip would significantly increase the amount of power per dollar available in this part of the market.

The new chip is central to Intel's plans to break out of the PC market, which it dominates, but which is suffering from rapidly falling prices and margins due to cheap competition and the rise of the sub-$1,000 PC. Rob Enderle of Giga Information Group, the market analysts, said the new chip would help Intel halt the erosion of its margins, but added that it was not yet clear whether it could sell enough to reverse the trend. Roger Taylor, San Francisco

Financial Times Annual Report Panel Service

97



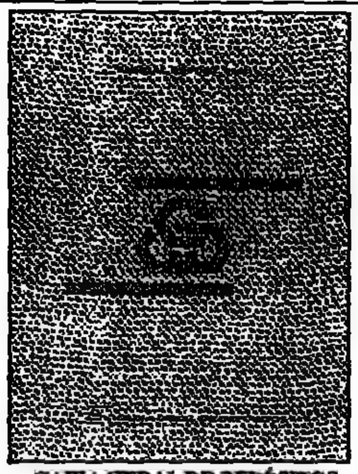
ANGLO AMERICAN CORPORATION

Anglo American Corporation, South Africa's premier mining finance house, has a wide range of investments, both locally and internationally, and is regarded as one of the world's foremost mining companies.

Operations are now conducted largely by seven focused and dedicated companies:

- Anglogold, the world's largest gold producer.
- De Beers, holding worldwide diamond interests.
- Amcoal, one of the largest private sector producers of coal in the world.
- Amplats, the world's pre-eminent platinum group metals producer.
- Amic, a major diversified industrial group, with a growing export business.
- FirstRand, (AAC and associate holding of 24%) one of South Africa's major financial services groups.
- Minorco, a leading international natural resources company

98



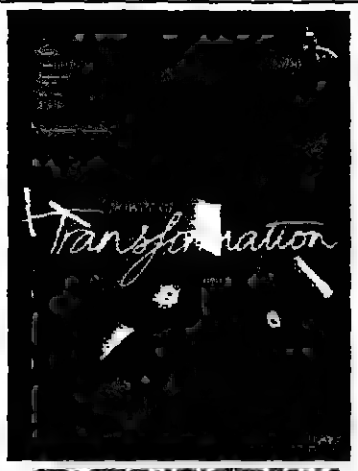
CAIXA GERAL DE DEPÓSITOS

Caixa Geral de Depósitos, SA established in 1876, is Portugal's largest bank and leads the most important domestic financial group - CGD GROUP - with major subsidiaries in *commercial and investment banking, insurance, leasing, factoring, fund management, real* estate and venture capital. As a universal bank, CGD offers a complete financial service worldwide, backed by its branches, affiliated banks and correspondents.

1997 CONSOLIDATED KEY FIGURES OF CAIXA GERAL DE DEPÓSITOS ARE:

• *Net Assets:*	*PTE 8,363 billion*	*(up 12.8% over 1996);*
• **Total Deposits:**	PTE 6,499 billion	(up 8.1%);
• **Loans and Advances:**	PTE 5,251 billion	(up 18.5%);
• **Net Income for the year:**	PTE 106 billion	(up 112.6%);
• **Solvency Ratio:**	11.8%.	

99



CIBA SPECIALTY CHEMICALS

Ciba Specialty Chemicals (SWX:CIBN) is one of the world's leading developers and producers of innovative materials that provide colour, performance and care for plastics, coatings, fibres, fabrics and other products. Ciba reported an 84 percent increase in pre-tax profits to SFr 571m on a sales increase of 19 percent in its first year as an independent company. With 1997 sales of over SFr 7.8 billion, the company operates globally with sales in 117 countries. As a leader in innovative products and services, 1997 spend on research and development was SFr 302m. In early 1998, the company acquired Allied Colloids, the UK based water treatments group. Ciba Specialty Chemicals employs more than 24,000 worldwide.

100

NEFTEKHIMPROM

Financial-industrial Group

NEFTEKHIMPROM is a multiprofile financial-industrial group composed of petrochemical enterprises and Chemeximbank commercial bank, all incorporated on a voluntary basis.

Today our businesses produce over 100 types of chemical and petrochemical products. NEFTEKHIMPROM accounts for about 11% of the domestic market of petrochemical products, reaching *up to 25% in some areas, for instance in synthetic* rubber. A third of all tires produced in the CIS is manufactured out of NEFTEKHIMPROM's raw materials or by its order.

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101

SIDEL

From using blow molding machines for PET packaging, a market in which Sidel is the world leader, the Group has developed an offer of complete bottling lines and packaging machinery.

In 1997, the Group has once again demonstrated its ability to conciliate strong growth and excellent profitability.

Consolidated key figures (in FF millions):	*1997*	*1996*
Sales	4,178.2	3,119.7
Operating income	*569.6*	*449.0*
Net income	339.1	263.0
Net return on capital employed	*27%*	*26%*

102

SOLVAY GROUP

A Passion for Progress

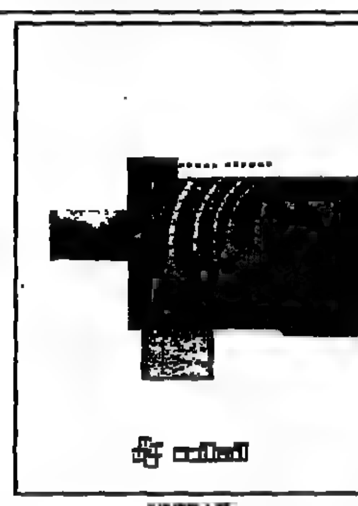
http://www.solvay.com

Solvay is a chemical and pharmaceutical Group, with consolidated sales amounting to *more than BEF 300 billion (USD 8.4 billion) in 1997.*

Solvay operates in 46 countries, employing more than 34,000 persons spread across more than 400 establishments.

The strategy followed by Solvay is to be a world leader in its four sectors of activity - Chemicals, Plastics, Processing and Pharmaceuticals, to improve the quality and added value of its products and services through continuous and cost-effective innovation - while also opening new geographical markets for them, mainly in the USA, Asia and Central Europe.

103



UNIBAIL

With a stock market capitalisation of FFr 8 billion (Paris Stock Exchange - SBF 120 index), UNIBAIL is the second largest listed property company in continental Europe in terms of *free-float. Its portfolio, concentrated on Paris office properties and major shopping centres, is* valued at just under FFr 12 billion.

In a recovering market, the company pursued in 1997 its investment strategy and registered an upturn in the Net Asset Value per share at FFr 643 (+6.6%) and a further increase in its pre-tax recurring cash flow to FFr 431 million (+6.5%) permitting an increase in the net dividend per share at FFr 30 (against FFr 29 last year).

The Group, which is also the General Partner of the Crossroads Property Investors fund as *well as one of its investors, is well-positioned to fully benefit from the recovery in the French* market.

UNIBAIL, 108 rue de Richelieu 75002 Paris - France
www.unibail.com

104

USINOR

Usinor is one of the world's leading steelmakers. The company produces, processes and markets flat carbon steels, stainless steels and specialty steels for customers around the world.

Usinor specialises in steel products with high added value. In addition to being Europe's number one supplier of steel for the automotive industry, Usinor is also a leader in steels for household appliances and packaging.

The company's strategy centers on continuous improvement of its internal performance, coupled with dynamic management of its business portfolio. Usinor seeks to explore new opportunities to create value while supporting the global development of its customers.

1997 KEY CONSOLIDATED FIGURES

- Sales: FRF 72 billion
- Income from operations: FRF 3.6 billion
- Net income: FRF 2.1 billion
- Workforce (annual average): 51,394 people

105

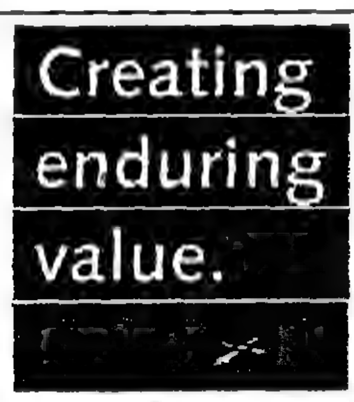
VALEO

Valeo is an independent industrial group dedicated to the design, manufacture and sale of components for cars and trucks. Over the last few years Valeo has developed its electronics expertise to become a full automotive systems supplier.

The Group serves all vehicle manufacturers worldwide, in Europe, North and South America and in Asia. It has 105 production plants in 19 countries. Each year, Valeo spends over 6% of sales on Research & Development and files around 500 patents. All Valeo's employees are focused on achieving Total Quality at the service of the Customer.

Sales 1997:	FFr 33.97 billion (71% internationally)
Workforce:	36,100 people (19,100 outside France)
Chairman & CEO:	*Noël Goutard*

106



VIAG
Aktiengesellschaft

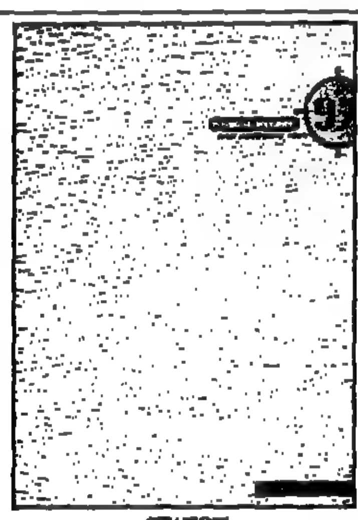
VIAG 1997

Continued Growth in Turnover and Income

VIAG is a group of companies specialising in the fields of energy, chemicals, packaging, logistics and telecommunications. In 1997, the group's 95,000-strong workforce generated a total turnover of DM 49.5 billion and an annual net profit of DM 1.2 billion.

Strategically, too, the concern continued to improve its position in 1977 with one of its power companies, Bayernwerk, acquiring an interest in the Swiss utility, Watt AG, increasing its share in Berlin's Bewag and also incorporating Isar-Amperwerke. While Klöckner & Co. maintained a clear focus on metal distribution, its core business, the new telecommunications division proceeded with its policy of consistent expansion.

107



STATOIL

Statoil is an international integrated energy company with 17 000 employees and operations in 25 countries.

Statoil achieved an operating profit of NOK 17 billion and a net profit of NOK 4.3 billion in 1997. The company's exploration investment offshore Norway and in international waters amounted to NOK 3.5 billion, and its oil and gas reserves were increased by eight percent during the year.

Statoil's overall reserves are today 4.4 billion barrels of oil equivalent.

**Please find our Annual Report and Accounts 1997 on
http://www.statoil.com**

108

MoDo

MoDo's profit after financial items for 1997 amounted to SKr 2,026 million (1996: 2,919m).

Net turnover amounted to *SKr 21,878 million (21,495).*

The core product areas, namely fine paper, newsprint and magazine paper and paperboard, *account for 80 per cent of invoiced sales.* The Group also produces sawn timber and pulp.

MoDo is one of Sweden's largest exporters. Its main markets are in Europe, and some 85 per cent of invoiced sales go to the EU.

The Group's production facilities are located in Sweden, Great Britain and France.

The Group has marketing organisations in most European countries, and in the USA. *MoDo's products are also marketed via agents and distributors in many other countries.*

The average number of employees in 1997 was 9,849, of whom 2,882 were employed outside Sweden.

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REINSURANCE FUNDS EARMARKED TO FINANCE EXPANSION AND SHARE STRUCTURE TO BE SIMPLIFIED AS PRELUDE TO FOREIGN LISTINGS

Munich Re in DM3bn fund-raising package

By Andrew Fisher in Frankfurt

Munich Re, Europe's largest reinsurance group, yesterday announced a DM3.3bn ($1.8bn) package of capital-raising measures to finance expansion and simplify its share structure as a prelude to its foreign stock exchange listings.

Claus Helbig, a director, said the funds would be earmarked for growth in such markets as the US, Europe, Asia and South America, though there were no concrete plans. "We don't like the term 'war chest', but we want to create something like this," he said.

The first stage of the capital raising will be a DM2.1bn rights issue.

The company will end the distinction between registered shares, of which there are 82m, and bearer shares, totalling only 3m.

Holders of bearer shares will be able to convert to registered shares, a move designed to increase trading liquidity and transparency.

The one-for-25 rights issue will start at the end of July, with the new shares costing DM600, a one-third discount on yesterday's pre-suspension price of DM908. Each share will carry a warrant (with a partial right to buy new shares later) valued at about DM80.

The company also announced a 65 per cent rise in net profits to DM1.1bn for the year to June 30, with premium income 38 per cent higher at DM44.4bn.

The improvement mainly reflected the consolidation of American Re – bought in 1996 for $3.3bn – the taking of full control of DKV, Germany's leading health insurer, and the regrouping of its direct insurance interests.

Munich Re is raising its dividend from DM1.70 to DM1.80 a share. Earnings per share, excluding a one-off gain of around DM500m on the sale of its stake in the Degussa industrial company to Veba, rose from DM15.65 to DM16. Profits from its investment portfolio increased 40 per cent to DM13.2bn, while reinsurance underwriting produced a DM50m loss, against a DM231m profit.

Mr Helbig said the share package would leave shareholders with a return of about 10 per cent and streamline the company's equity structure. This was a necessary precondition for foreign listings, such as in the US, though there were no current plans.

In January, it will call in the unpaid sum of DM5 per partly-paid DM10 registered share – raising a further DM427m – and implement a stock split. He said this would double shareholders' earnings, since the company would maintain the dividend after the split. The shares will be converted into non-par value units in preparation for the euro.

Munich Re will offer holders of bearer shares the chance to buy registered shares at DM247 each as well as exchanging their bearer units. This will raise DM741m. It will change its year-end to December and switch to international accounting standards.

Dexia in Spanish banking alliance

By David White in Madrid

Dexia, the Belgian-French banking group specialising in local government finance, is to take 40 per cent of Spain's Banco de Crédito Local, part of the Argentaria group, under an agreement announced yesterday and valued at about Pta80bn ($522m).

Argentaria described the deal as the first international alliance struck by the Spanish banking sector in the new context of European monetary union. It said greater size was vital to compete in the local authority finance sector within the future EU market.

The agreement is the Spanish group's first step towards setting up a range of strategic alliances to reinforce its business, following the final stage of privatisation earlier this year.

Dexia, the group formed by the merger of Crédit Communal de Belgique and Crédit Local de France, is to take its stake through its Project and Public Finance International Bank subsidiary, and will bring its Spanish offshoot, Dexia Banco Local, into the deal.

Argentaria said Banco de Crédito Local, one of the five formerly state-owned banks brought into the group when it was formed in 1991, was valued at Pta200bn.

Dexia would initially pay Pta64.5bn for its stake in Banco de Crédito Local, which would then absorb the business of its Spanish subsidiary, valued at Pta12.5bn.

Argentaria said the combined bank would be able to offer a wider range of financial products and services, and would gain the opportunity of participating in financing operations in other European countries.

The two groups would also consider expanding further afield, especially in Latin America.

Francisco González, Argentaria chairman, spelled out plans six months ago for alliances with Spanish and foreign institutions, saying these might involve shareholdings, joint ventures or ad hoc projects.

Banco de Crédito Local is the market leader in Spain in local authority finance, with a loan portfolio of Pta1,300bn at the end of last year and pre-tax 1997 profits of Pta18.28bn.

Argentaria described Dexia as "the best European partner" in its sector.

Thyssen Krupp Stahl to bid for Cockerill

By Ralph Atkins in Duisburg

Thyssen Krupp Stahl, the newly-created German steel group, yesterday confirmed it would join the bidding for a majority stake in Cockerill Sambre, the Belgium state-controlled steel group.

Wolfgang Kohler, chairman, said the acquisition of a Cockerill Sambre stake would represent "a further contribution to the restructuring of the European steel industry".

Earlier this month, the Walloon region of Belgium said four groups, including Thyssen Krupp Stahl, had expressed an interest in Cockerill Sambre. The others were France's Usinor, Arbed of Luxembourg and Hoogovens of the Netherlands.

Thyssen Krupp Stahl would not disclose details of its bid but it expects a decision in September.

Cockerill Sambre would be attractive to the Duisburg-based group because of its trading and service activities as well as its building components business.

Separately, Thyssen Krupp Stahl detailed plans for expanding its "downstream" activities in "the world's growth regions".

A $250m investment project in Brazil was announced last month; a galvanising plant in China with a capacity of 300,000 tonnes and an electro-plate works in India are under consideration.

In Poland, Thyssen Krupp Stahl has teamed up with UK-based Ispat to make a joint offer for the Huta Sendzimira and Huta Katowice steel works.

Thyssen Krupp Stahl was formed with effect from last September but will become part of the group created when the Thyssen and Krupp industrial conglomerates complete their planned merger next March.

Yesterday, Mr Kohler said the Thyssen Stahl holding group, which owns 60 per cent of Thyssen Krupp Stahl, had reported pre-tax profits in the first six months of the 1997-98 financial year of DM466m ($259m) – compared with DM428m for the entire 1996-97 year.

Wolfgang Kohler: acquisition would contribute to 'restructuring of European steel industry' Reuters

Merger benefits from combining flat steel businesses are expected to reach DM550m a year from 2001, but additional merger benefits of DM125m are also now expected. Consolidation plans have been altered to keep open a blast furnace in Dortmund longer than expected, reflecting favourable demand.

Originally Thyssen Krupp Stahl expected a workforce of 18,100 in 2001. This has now been revised to 19,600.

Battle for VAE ends with rivals sharing control

By William Hall in Zurich

The battle for VAE, one of the world's leading makers of railway points and signals, has ended with VA Stahl, Austria's leading steel company, and Vossloh, a German electronics and transport group, sharing control.

Vossloh's emergence as joint owner of VAE is a surprising twist to a rare Austrian hostile takeover battle.

Last week it appeared that VA Stahl, one of VAE's main suppliers, had won control by outbidding France's De Dietrich, one of VAE's main competitors. De Dietrich said it would not top VA Stahl's Sch2.4bn ($188m) bid and agreed to sell its VAE stake to VA Stahl.

However, last Thursday Vossloh entered the competition, saying it wanted to bid for VAE, whose shares had jumped to a near-Sch300 premium to VA Stahl's offer. But less than a day later it said it was not planning a bid but remained interested in VAE.

The confusion over Vossloh's intentions is likely to throw the spotlight on Austria's lack of a code to regulate contested takeovers.

Shareholders in Austrian companies have far less protection than in other countries, and VAE's shareholders may feel aggrieved that their board of directors recommended the VA Stahl bid when there was another suitor in the wings.

Vossloh appears to have been one of the active buyers of VAE shares in recent weeks and is understood to own more than 20 per cent.

It said yesterday it had agreed to pool its stake in VAE with VA Stahl in a 50-50 joint venture which would control VAE. VA Stahl, which is believed to own more than 50 per cent, has extended its offer of Sch1,700 a share until July 3.

Vossloh, which made pre-tax profits of DM95.3m ($52.6m) on sales of DM838.4m in 1997, said the new owners wanted to expand VAE's points manufacturing and extend its range of products.

VAE is understood to have turned to VA Stahl to rescue it from De Dietrich's unwelcome overtures. It had hoped that VA Stahl's presence on its shareholder register would have allowed it to maintain its quotation on the Vienna bourse.

PwC throws down challenge to rival firms

By Jim Kelly, Accountancy Correspondent

The world's biggest professional services firm comes into existence at midnight tonight with senior executives pledged to a programme of "bold implementation" – including intranet links available to all 140,000 staff on day one and new IT audit training for 40,000 in the first 12 weeks.

Nick Moore, prospective chairman of the merged Coopers & Lybrand and Price Waterhouse, said the new firm could "break away" from its competitors among the new Big Five global accountancy firms in terms of size and quality.

The firm plans to hire 1,000 a week to a maximum of 250,000 staff in five years in spite of widespread skill shortages. "We are going to have a tremendous footprint in the marketplace and that will lure a lot of people to us," said Mr Moore.

Jim Schiro, prospective chief executive of PricewaterhouseCoopers, said he expected the new firm to grow by 20 per cent a year and reach global revenues of between $30bn and $40bn within five years.

It will have revenues of $13bn on 1996-97 figures and top the Big Five ahead of Andersen Worldwide on $11.3bn, Ernst & Young on $9.1bn, KPMG on $9bn, and Deloitte Touche Tohmatsu on $7.4bn. In the UK it will be more than twice the size of the nearest competitor and audit 48 per cent of the FTSE 100 companies.

Competitors report that within the merging firms there has been unrest over senior appointments and that PwC could be embroiled in internal issues for many months. Most Big Five firms say they stand to pick up clients in the next 12 months. But one PwC executive said all the partners now backed the deal. "The fat lady's sung," he said.

The creation of the firm comes nine months after senior executives announced their plans in New York and London. The merger has had to be passed by partner votes and regulators. There now seems little doubt that PwC's 9,000 partners will back the country-by-country merger. Each merged national firm will then be eligible to become part of an integrated organisation managed on a global basis.

S Africa retailer in Philippines venture

By Victor Mallet in Johannesburg

Pick 'n Pay, the South African retailer, is to run convenience stores at Shell service stations in the Philippines in a pilot project which could be copied elsewhere in Asia.

Gareth Ackerman, Pick 'n Pay deputy chairman responsible for the international operations, said the Philippines was chosen because of its large population, many of whom spoke English, embraced western culture and spent much of their income on food.

"The Philippines is also attractive because the Asian crisis has frightened off many multinationals, which has provided opportunities for new players," he said.

Shell operates more than 1,000 service stations in the Philippines, 50 of which have Select stores attached. Initially, Pick 'n Pay will upgrade five of the Select stores, and invest in two stand-alone shops.

Raymond Ackerman, chairman, said Pick 'n Pay could make annual pre-tax profits of R40m-R50m ($6.8m-$8.5m) from the deal after five years.

NEWS DIGEST

PAPER MANUFACTURING

Enso expands in Asia with $80m Thai stake

Enso, the Finnish forestry group which is merging with Stora of Sweden to become the world's largest pulp and paper group, is to step up its presence in Asia by acquiring a 19.9 per cent stake in Advance Agro of Thailand for $80m. The two companies yesterday unveiled a far-reaching co-operation pact whereby Enso will supply Advance Agro with long-fibre wood pulp from its European plants and assume sales and marketing responsibility for Advance Agro products outside Thailand. The two will also co-operate in research and development.

The deal marks Enso's first significant foray into the Asian market outside Indonesia, where it produces short-fibre pulp. Enso, which is to subscribe for new shares in Advance Agro, said the collaboration would improve its product portfolio, particularly in fine paper – used for copying and writing – and would cut production costs. **Greg McIvor, Stockholm**

INSURANCE

Império offering in demand

A retail offer of 2m shares in Império, one of Portugal's biggest insurance companies, is more than 21 times subscribed, bankers said yesterday. The global offering of 17.58 per cent of Império, to be concluded on Thursday, also includes an institutional tranche of 6.5m shares. The operation will increase the free float in Império shares from 19.64 to 37.22 per cent. Global co-ordinators are Banco Mello de Investimentos and Deutsche Bank de Investimento. The company is controlled by the José de Mello group, which will hold 52.5 per cent after the offering. **Peter Wise, Lisbon.**

ELECTRICITY

EdP remains above offer price

Shares in Electricidade de Portugal, the national power utility, fell 0.94 per cent yesterday to close at Es4,338, but remained above the Es4,300 price of a global offering of 18 per cent of the group's capital. Analysts said they expected the shares to remain above the offer price today when the new shares sold in Portugal's biggest global offering begin trading.

A total of 2.2m EdP shares were traded yesterday, more than five times the normal volume, and brokers said there was strong buying support at the Es4,300 level. Analysts said it was unlikely EdP shares would fall substantially below the offer price, as happened after a recent global offering of Endesa, Spain's biggest electricity company. This was partly because, unlike the Endesa offer, retail investors are required to hold EdP shares for three months to benefit from a 3 per cent discount on the offer price. The EdP offering, which was 63 times subscribed by retail investors, raised Es503bn ($2.72bn), including the direct sale of 2.25 per cent to Iberdrola, Spain's second largest power company, at the offer price. **Peter Wise**

AIR TRANSPORT

Swissair links with Cathay

Swissair, Switzerland's national airline, has teamed up with Hong Kong's Cathay Pacific to provide joint services between Zurich and Hong Kong. The two airlines have signed a memorandum of understanding which foresees closer collaboration.

The new code sharing venture will offer seven non-stop flights a week between the two cities. The two airlines plan to co-ordinate their frequencies and connecting services. Swissair has been seeking a new Asian partner to fill the vacuum following last year's decision by Singapore Airlines to pull out of the "Global Excellence" alliance with Delta Airlines, Swissair's longstanding trans-atlantic partner. SAirGroup, Swissair's parent, indicated yesterday it was no longer seeking a single strategic Asian partner but was seeking several new route-specific partners. **William Hall, Zurich**

FINANCIAL SERVICES

EFG heads Cretabank race

EFG Eurobank, the private Greek bank controlled by the London-based Latsis shipping and oil refining group, made the highest bid at yesterday's auction of Cretabank, held under the Socialist government's privatisation programme.

EFG Eurobank offered Dr93bn ($304m) for 98 per cent of the bank, which is marginally profitable and has a large branch network around Greece. Analysts said the bid was higher than anticipated, given the bank's large portfolio of doubtful loans. Cretabank, formerly known as Bank of Crete, was placed under central bank administration after a $200m embezzlement scandal was revealed in 1988.

The government is expected to make a final decision this week.

Competition is intensifying among Greece's small private banks to increase market share ahead of the launch of the euro.

Earlier this month, EFG paid Dr10.5bn to acquire control of Bank of Athens, a loss-making bank owned by Korea's Hanwha group. Charterhouse, the UK investment bank, advised the government on the sale. **Kerin Hope, Athens**

هكذا من الاجل

SECURITY SERVICES SWEDISH GROUP STRENGTHENS HOLD ON EUROPEAN MARKET WITH ACQUISITIONS IN FRANCE AND GERMANY

Securitas agrees purchases worth SKr3bn

By Greg McIvor in Stockholm

Securitas of Sweden yesterday bolstered its status as Europe's largest security services group by acquiring Proteg of France and the guarding operations of Germany's Raab Karcher in deals worth SKr3.3bn ($415m).

The two agreements are the latest in a raft of acquisitions by Securitas in the past few years which have seen it emerge as the only pan-European security group.

Securitas said the deals, to be financed by cash and paper, would lift its annual sales by 50 per cent to about SKr18bn. The addition of 23,000 staff would increase its workforce to 68,000.

The company said the new bolt-ons would raise to 10 per cent its share of the European market, estimated to be worth SKr180bn and to be growing by 5-7 per cent a year.

Securitas's most-traded B shares surged SKr32 to SKr383. The stock is the Stockholm bourse's star performer, having risen 62 per cent since the start of the year.

Peter Lawrence, Nordic equity specialist at Dresdner Kleinwort Benson in London, applauded the deals, saying they would accelerate the consolidation of Europe's long-fragmented and low-margin security services market.

"In a way the German acquisition is the more important because it is clearly the market with the biggest long-term potential in Europe," he said.

Securitas is paying SKr1.11bn for the German guarding operations by issuing shares to Raab Karcher. The business, Germany's largest guarding service provider, has sales of SKr2bn and an operating margin of 3 per cent.

Securitas predicted it would achieve big synergy gains from combining the unit with its existing security activities in Germany.

Total synergy gains, including the acquisition of Proteg, would amount to SKr220m-SKr250m, beginning in early 1999. Proteg is France's largest guarding company, posting operating profits of SKr60m last year on sales of SKr3.8bn. It also has a substantial presence in alarm systems and a smaller transit services arm.

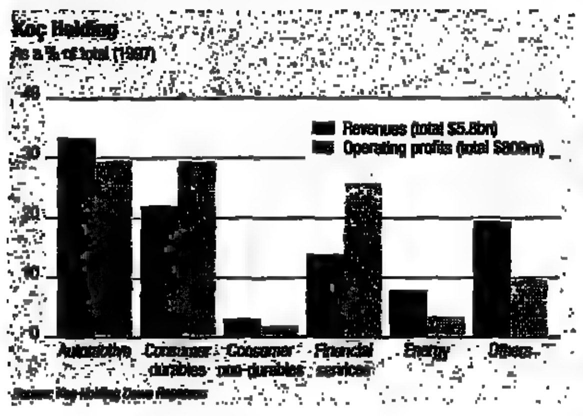
Securitas is paying SKr2.18bn for Proteg to Finecco, its French parent. Some SKr858m will be paid in cash, with the balance to take the form of new shares.

CSFB advised Finecco on the deal, while Handelsbanken Markets acted as adviser to Securitas.

Curtain starts to rise on Turkish family empire

Koç Holding's $300m share offer to foreign investors spells greater transparency, writes **Vincent Boland**

Managing director Suna Kiraç: ready for the challenge



Chairman Rahmi Koç: denies that company is drifting

Executives at Koç Holding, Turkey's biggest private company, like to boast that every Turkish household owns a product it makes. From cars and washing machines to bank accounts and tomato paste, the company's presence is ubiquitous.

Yet the Koç family, which controls the company and is almost certainly Turkey's wealthiest dynasty, has maintained a remarkably discreet front while building its formidable business empire. Today, Koç Holding is a Fortune 500 company with 1997 revenues of $5.8bn and operating profits of $809m, but the family – sometimes compared with the Wallenbergs of Sweden – has managed to keep out of both the society columns and the business pages.

Now, Koç Holding is embarking on a move of real strategic importance – a $300m share offer aimed exclusively at international investors. And although the company is already listed on the Istanbul stock exchange, it is only now, in anticipation of the scrutiny of global fund managers, that the curtain is beginning to rise on the business empire founded in 1926 by Vehbi Koç, who died two years ago.

Analysts in Istanbul who follow the company say Koç Holding has lacked direction since the founder's death. "Koç is a very respected company, but it is often criticised for being slow," says Cüneyt Demirgüreş, head of research at Demir Yatirim, a Turkish investment bank. He points to a decline in competitiveness at Tofaş, a key automotive division, which has been losing market share to imported cars from western Europe and Japan.

The same has happened to other domestic car producers, however, and Rahmi Koç, chairman and son of the founder, rejects the suggestion that either the family or the company has been drifting. Life has become more difficult for a lot of Turkish companies since the economy was opened up to imports after Turkey's customs agreement with the European Union in 1996.

But Mr Koç admits: "We are at a crossroads in the sense that the economic climate in Turkey has changed. We are facing more competition and making less profit. But we are adjusting very well. The customs union will hurt small and medium companies more than it will hurt Koç Holding."

The company is now gearing up for this new economic climate, extending its already wide reach – the main sectors are automotive, consumer durables and non-durables, financial services, and energy – into retailing and telecommunications. Koç Holding has some 100 subsidiaries. The family also has considerable interests outside the company.

Koç Holding is hoping to be a beneficiary of Turkey's extensive but protracted privatisation programme, targeting in particular a 20 per cent stake in Türk Telecom, the national monopoly, which might be sold later this year.

"We are very actively and aggressively pursuing the telecom privatisation," says Ali Koç, son of the chairman and in charge of new business ventures.

Earlier this year, meanwhile, Tofaş, a joint venture with Fiat of Italy, announced that its plant in Bursa, south of Istanbul, would be one of the main production centres for the new Fiat Palio. Cars made at the plant will be exported to neighbouring countries and to western Europe.

Analysts say the new model should give Tofaş more firepower in its efforts to maintain its position as Turkey's leading carmaker – the automotive division contributes about a third of Koç Holding's annual revenues.

Ali Koç is a member of the third generation of the family now being groomed for the succession. However, Rahmi Koç and his sister, Suna Kiraç, who is managing director and vice-chairman, are the main family executives.

For the family, much is riding on the success of the share offer. It is selling a small stake but will retain control. However, Koç Holding is now converting its accounts to international standards and preparing for the rigours of exposure to foreign investors. It may be a difficult transition.

But Ms Kiraç believes the company is ready for the challenge. "We have been a public company since 1983 but we have not had so many dealings with the investment community," she says. "Now we have to be more transparent. This whole process [of meeting international investors] will bring us more discipline."

Proton dips sharply to M$440.6m

By Sheila McNulty and Asif Huda

Proton, Malaysia's national carmaker, failed to meet analysts' expectations with annual net profits down sharply from M$741.5m to M$440.6m (US$108.3m).

Analysts had forecast net profit of more than M$600m for the year to March. But mounting unpaid loans forced banks to tighten lending restrictions as the economy contracted and high interest rates reduced the demand for cars on credit.

Revenues rose from M$6.22bn to M$6.79bn.

The company has been forced to delay building a M$5.75bn plant and town, dubbed Proton City, and the management has begun to look to the Middle East for new markets.

Car sales in Malaysia have fallen more than 60 per cent. Proton had hoped to offset this slowdown by focusing on exports to more robust markets. But the company admitted tough competition had limited the profitability of its overseas operations.

It said it would spend M$4bn over seven to 10 years on developing new products.

Proton's slower growth cut into the earnings of parent company, Hicom Holdings, which reported a 7.94 per cent drop in group pre-tax profit from M$983.9m to M$905.8m for the year ended March 31.

NEWS DIGEST

PHILIPPINES

Striking PAL pilots must ask for their jobs back

Striking Philippine Airline pilots will have to reapply for their jobs, after a government ruling ordered them to return to work. "For all intents and purposes, they are no longer in the employment of Philippine Airlines," Manolo Aquino, executive vice-president, said. The ruling ordering the 625 striking pilots to return to work was served on June 7, but the pilots' association said yesterday its lawyers had not received it until last Thursday. Although PAL is required to take them back on the same conditions, the airline's worsening financial health and a hardening of the management's position makes that unlikely.

Shortly after sacking the pilots, PAL said it was unable to service debts of 85.1bn pesos ($2.02bn). It has since cut 5,000 of its 13,000 workforce and filed for protection from its US creditors. It hopes to raise $1.5bn from the sale and termination of leases on 40 aircraft, which would leave the airline with a skeletal fleet of 14 aircraft. **Justin Marozzi, Manila**

MATERIALS HANDLING

Incentive cuts MacGregor stake

Incentive, the main industrial arm of Sweden's Wallenberg business empire, yesterday signalled the end of its seven-year restructuring by announcing the disposal of a majority stake in MacGregor, its materials handling business. Industri Kapital, Scandinavia's largest venture capital group, has agreed to pay SKr900m ($113m) for a 60 per cent stake in MacGregor, one of the world's largest manufacturers of industrial cranes and cargo systems. Although Incentive will retain a 40 per cent holding, the company made clear it did not intend to retain the stake in the long term.

The deal marks the final stage of Incentive's transformation from a loose industrial conglomerate into a medical technology group, dominated by Gambro, its US renal care business.

Incentive, which is changing its name to Gambro, said MacGregor returned to profit in the first quarter with a gain of SKr27m, compared with a loss last time of SKr11m, on sales up from SKr569m to SKr761m. **Tim Burt, Stockholm**

HOUSEHOLD GOODS

Electrolux cabinets arm sold

Electrolux, the Swedish household goods manufacturer, said yesterday it was selling its European kitchen and bathroom cabinet operations to Scandinavian Equity Partners, the financial investment group, for an undisclosed sum.

Last year the European cabinet business had sales of SKr675m ($85m). **Tim Burt**

TELECOMMUNICATIONS

RSL buys Motorola Tel.co

RSL Communications, a Bermuda-based alternative telecommunications operator, is paying $75m in cash for Motorola's European cellular service provider, Motorola Tel.co. It is also assuming the company's working capital deficit of about $25m.

Motorola Tel.co has operations in the UK, France, Germany and Belgium. **Alan Cane**

PowerGen acquires East Midlands

By Andrew Taylor

PowerGen yesterday announced plans to create one of Britain's biggest energy groups through the £1.9bn ($3.2bn) agreed purchase of East Midlands, the country's third largest electricity supplier.

PowerGen, Britain's second and largest fossily fuel generator, is also negotiating a possible merger with Houston Industries of the US which would create a group with a current combined market value of £10bn.

Dominion Resources, the Virginia based utility, has agreed to sell East Midlands for £851m cash. PowerGen also assumes £1.05bn of debt. It is raising £2.4bn in new credit facilities, arranged by Deutsche Bank, Goldman Sachs and HSBC, to help finance the deal.

The British generator has offered to sell one of its five domestic 2000MW coal fired power stations in a bid to prevent a referal to the Monopolies and Mergers Commission.

PowerGen said potential buyers had already expressed interest in purchasing the plant, which could fetch up to £500m.

The British government last week signalled that it wanted PowerGen and National Power, the largest fossil fuel generator, to reduce their market power by selling coal fired plant. Labour when in opposition supported MMC scrutiny of previous bids by generators for regional suppliers.

Prof Stephen Littlechild, director general of Offer the industry regulator, is expected to announce today how much capacity he would like to see sold by PowerGen and by National Power. The latter has said it will not sell any more plants.

Because the purchase of East Midlands is not a bid but subject only to shareholder approval, it could not be prevented by an MMC probe. PowerGen could, however, be forced subsequently to sell East Midlands if an investigation ruled that its market power remained too great.

Ed Wallis, PowerGen chief executive, said yesterday he was confident government would be satisfied by the sale of 20 per cent of the group's coal fired capacity.

"Our conclusion is that there is no (regulatory) hurdle that cannot be overcome. We aren't walking away from this deal." Prof Littlechild has been reported to be considering a higher divestment figure than 20 per cent.

Mr Wallis said that the purchase of East Midlands, which supplies 2.2m customers, would leave the group with about 15 per cent of the generation market and 8 to 9 per cent of the electricity supply and distribution markets.

Lex, Page 18

Ed Wallis (right) and Peter Hickson, finance director, expect to overcome any regulatory hurdles Ashley Ashwood

GKN acts to avoid ICI controversy

By Andrew Edgecliffe-Johnson

GKN, the car parts, helicopters and tanks group, took the rare step yesterday of issuing a statement to the Stock Exchange to coincide with a visit by analysts to one of its plants.

It is understood that GKN decided to make the announcement following controversy last week over changes to profits forecast by analysts for Imperial Chemical Industries, following conversations between the company and some analysts.

The Stock Exchange is believed to be examining a possible breach of its rules over the ICI downgrades, although ICI said last week that "there was no specific statement and no specific earnings guidance."

The GKN statement said only: "At the annual general meeting in May it was reported that profit before tax in the first four months of the current year was ahead of the corresponding period in 1997. Since that time, there has been a continuation of this satisfactory trend."

Analysts, who had forecast that GKN's pre-tax profits would rise from £406m to £440m ($735m) in the year to December 1998, said they expected more companies to follow GKN's example.

Harry Philips, engineering analyst at Panmure Gordon, said: "Bigger companies are becoming much more aware that, because of [the controversy at ICI] prudence is sensible." Colin Fell of Dresdner Kleinwort Benson added: "Given how sensitive the environment is, this is no surprise."

GKN's spokesmen were in north east Germany yesterday, taking analysts and investors around the group's powder metallurgy plant, and were not available for comment.

One analyst said: "I suspect that an awful lot more detail is being given than just the four lines," but he said such detail would not be of a price-sensitive nature.

The group's shares fell 14p to 781p yesterday, continuing a trend among most engineers in the past month. Since May 28, GKN's shares have fallen by 14 per cent.

Further cut in Molins' workforce

By David Blackwell

Molins, the cigarette machinery manufacturer, yesterday announced a second round of job cuts that will leave the tobacco division workforce at half the level of a year ago.

Peter Grant, finance director and acting chief executive, said the fall in the workforce, from more than 2,000 late last year to less than 1,000, was indicative of the decline in sales of cigarette making machines, particularly to China.

The news came as an extraordinary meeting of shareholders backed the $50m disposal of Langston, the US corrugated board machinery business that last year revealed accounting irregularities.

Molins' shares, which were trading above £10 at the end of 1996, closed unchanged at 222½p.

The group warned in March, when it reported a 1997 loss of £30.1m, that it might have to take further action in spite of having shed 800 jobs at the end of last year. Yesterday it announced a further cut of up to 400 jobs, plus the closure of its Peterborough site. The latest restructuring will result in exceptional charges of £16m, which will leave the group in the red again this year. Analysts are expecting profits before exceptional charges to be between £6m and £8.5m.

Mr Grant, who took charge following the resignation of Peter Harrisson as chief executive in January, blamed the fall in demand for cigarette machinery on the Chinese clampdown on black-marketeering, litigation against US tobacco groups, and the collapse of south-east Asian currencies. The situation would have been more manageable if all three problems had not happened together.

The group will concentrate its UK cigarette machinery operations, including spares and distribution, at Saunderton in Buckinghamshire. It also has a packaging machinery division which, among other things, makes the machinery for the pyramid tea bag for PG Tips.

Its main competitors for cigarette machinery are Hauni of Germany and GD of Italy, both private companies.

Mr Grant suggested yesterday that the competition had yet to restructure, so that head-to-head battles for orders could lead to further pressure on prices.

Analysts said the group's problems appeared to be at an end. "They have reduced the group to an appropriate and profitable size," said Michael Blogg, engineering analyst with Charterhouse Tilney.

David Larkam of Albert E Sharpe said: "It should now be able to make a profit from spares alone."

COMMENT

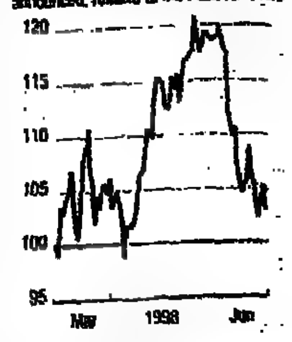
GKN

GKN's "no change" trading update looks deceptively boring. But it serves two very useful purposes. First, it demonstrates a sensible alternative to Imperial Chemical Industries' botched communication with the market last week. Obviously analysts visiting GKN will get far more in terms of industrial background and the company's mood than is contained in its bald three-line statement. But the price sensitive bit is simply that pre-tax profits so far this year are ahead of last year's £406m. This should only raise a minimal question over forecasts of about £440m. Nevertheless there is a second message: this is no time to be optimistic about an industrial company's earnings growth. The near 2 per cent fall in GKN's share price suggests, surprisingly, that there was still too much optimism about. This is despite a cold shower of negative news for engineering stocks this month, starting with Siebe's warning on global trading conditions and an unexpected rise in UK interest rates.

With anxiety over profit forecasts now endemic, companies have to be more assiduous than ever in monitoring market expectations. And if they must steer, it should be done equally. Other companies should follow GKN's example. But some of them will be unable to keep the content so unexciting.

GKN

Share price since full year results announced, relative to the FTSE All-Share



Source: Datastream/ICV

Tax losses

Is it racy accounting to offer tax losses as bait to lure investors into big construction projects? No. London & Continental Railways' planned sale of tax losses to new investors simply makes use of longstanding rules. In a group of companies, one subsidiary's losses can be offset against another's profits. Consortium members can do the same with their share of the consortium's losses. There are qualification rules, which LCR does not seem to be bending.

The Inland Revenue might be provoked if the investor's prime motive seemed to be tax dodging. But that is true of any transaction. With this high profile project, LCR is surely sensitive to avoiding embarrassment. It should not, for instance, sell the losses on the cheap. But £30m a year inexpected proceeds – more than half the forecast deficit – looks fair. Compared with the government's lack of a contingent liability provision for its £3.8bn loan guarantee, the use of consortium tax relief is prudent.

Abbot buys BW for £21m

By Arkady Ostrovsky

Abbot Group, the oil services concern, has bought BW, an Aberdeen-based supplier of drilling muds and chemicals. Before 1994 BW, which has net assets of £3.3m, was part of KCA, Abbot's drilling subsidiary, but it was bought out with the backing of venture capital groups. Abbot is to pay £16.5m cash with the repayment of £2m of debt. It will also assume BW's bank overdraft of £1.5m and outstanding loan notes of £1.9m.

Abbot said BW would provide a third leg to the group, operating independently of its drilling and inspection divisions. Alasdair Locke, chairman, said: "It is very logical for a drilling contractor to have a drilling-fluid supplier. BW has a very strong position in the UK but we can help it expand internationally." In the medium term be expected to double BW's turnover, currently £21m. The deal would be earnings-enhancing from the outset. This year Abbot won its first large drilling contract in the Caspian Sea region and expects to lift turnover there to more than £20m in three years.

JWT wins Merrill Lynch account

By John Willman

J Walter Thompson, a subsidiary of WPP, the UK marketing services group, has won the global advertising account for Merrill Lynch, the US investment bank which is one of the world's largest financial services advertisers.

WPP's success emerged as it issued a trading statement at its annual meeting, announcing an increase in reportable revenues over the first five months of 1998 of more than 8 per cent. This was slightly ahead of expectations, taking the shares up 4p to 392p.

The statement said the group, where Martin Sorrell is chief executive, was prepared to step up the pace of acquisitions following a sharp fall in its net debt. Further share buy-backs would also be considered in the rolling programme which aims to buy in 2-3 per cent of the equity each year.

Surplus cash flow of about £150m ($250m) a year had brought net debt down from an average of £437m in 1992 to about £100m – despite £100m spent on acquisitions and share repurchase in the past year.

"The indications are that the group is trading rather ahead of expectations," said David Forster, of Salomon Smith Barney. However, he expected most analysts to leave their full-year estimates unchanged given fears of a slowdown later in the year, particularly in the UK.

The Merrill Lynch account, worth up to $100m a year in billings, was previously held by Bozell, owned by True North Communications of Chicago.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bakery Services ϕ	Yr to Mar 31	4.07	(2.68)	0.165L	(0.094)	0.22L†	(-)	-	-	-	-	-
Beale	6 mths to May 2	35.1	(32.4)	2.8	(2.58)	9.15†	(8.35)	1.65	Oct 5	1.5	-	4.75
[illegible]	Yr to Apr 30	31.7	(22.6)	4.18	(2.22♥)	18.9	(11.7)	3	Aug 24	-	4.4	-
City Site Estates	6 mths to Mar 31	4.85	(5.35)	0.949	(0.745)	2.57	(0.68)	nil	-	nil	-	nil
Dyson (J&J)	Yr to Mar 31	63.3	(58.9)	3.66♥	(3.58)	18.46	(17.2)	4.04	Sept 1	3.75	6.04	5.75
Fairfield Ents	6 mths to Mar 31	39.5	(29.6)	1.7	(1.15)	13.5	(8.7)	3	Sept 18	2	-	4.7
Fitness First ϕ	6 mths to Apr 30	5.38	(2.38)	1.03	(0.615)	3.13	(1.48)	-	-	-	-	-
John David Sports	Yr to Mar 31	108.9	(88.1)	8.81	(8.97)	13.78†	(13.45)	3.6	Oct 16	3.6	5.6	3.6
Kewill Systems	Yr to Mar 31	45.1	(41.3)	6.81♠	(6.51♠)	30.6	(31.6)	7	Oct 1	6	11	9.6
Liberfabrica	Yr to Mar 31	68	(57.5)	8.92	(5.51)	2.54	(2.27)	0.41	Oct 2	0.35	0.6	0.51
Megalomedia ϕ	Yr to Mar 31	18.1	(6.73)	2.4	(1.67)	2.31†	(2.01)	0.25	Oct 1	0.2	0.25	0.2
Microplanet ϕ	6 mths to Feb 28 ☆	1.26	(0.121)	0.721L	(0.857L)	1.98L†	(2.64L)	-	-	-	-	-
Northern Petroleum ϕ	Yr to Dec 31 ‡	-	(-)	0.899L	(1.08L)	5.1L	(9.3L)	-	-	-	-	-
Rap	Yr to Dec 31	27.4	(32.6)	1.27L	(0.69)	10.3L	(4.4)	nil	-	0.9	0.7	1.5
Richards	6 mths to Mar 31 ★	28.8	(32.4)	1.3L	(0.523L)	5.54L	(2.61L)	nil	-	1.07	-	1.07
Soundtrace ϕ	6 mths to Apr 30	1.44	(2.97)	0.007	(0.181)	0.06	(1.35)	nil	-	0.4	-	0.4
Tandem	Yr to Feb 1	38.8	(48.3)	2.25L♠	(3.37L♥)	2.48L	(3.65L)	nil	-	nil	nil	nil
Toad	Yr to Mar 31	9.59	(4.81)	2.65L♠	(5.21L)	9.46L†	(26.31L)	-	-	-	-	-
UK Land	Yr to Mar 31	2.75□	(2.87□)	1.51	(1.25)	11	(13)	5	Apr 7	3	[illegible]	3
Weeks ϕ	Yr to Mar 31	13.5	(12.7)	0.809	(0.911♠)	0.39†	(0.5)	0.066	July 31	0.06	0.11	0.1

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen Lloyd's	Yr to Mar 31	133.84	(101.76)	4.06	(2.54)	13.48	(8.47)	6.45†	Aug 31	6.45	6	6
Baring Emerging $	Yr to Apr 30	252.67	(-)	2.14L	(-)	1.72L	(-)	nil	-	nil	nil	nil
Second St David's	6 mths to May 31	117	(38)	0.897	(0.895)	8.5	(8.48)	-	-	-	-	17
St David's	6 mths to May 31	514	(282)	0.856	(0.64)	10.44	(7.8)	4	-	3	-	19

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ϕAim stock. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ☆Comparatives for nine months. ‡Comparatives for 14 months. ★Comparatives restated. □Gross rents. $US currency.

Mirror names Victor Blank as chairman

By Cathy Newman

Mirror Group will today appoint Victor Blank, former head of Charterhouse, the merchant bank, as its chairman, at a time when David Montgomery, chief executive, is attempting to clarify strategy.

The board of the newspaper publishing group is to approve the selection of Mr Blank, one of the City's best-known figures, this afternoon. He will succeed Sir Robert Clark, who has been chairman since 1992.

The move will be accompanied by a concerted attempt by Mirror to highlight its strategy more clearly to investors. That is likely to include a change in name to reflect a shift in focus from tabloid newspapers towards regional newspapers, exhibitions, and television.

Mr Blank's appointment comes after speculation about Mirror's future as an independent company. Axel Springer Verlag, the German media group, said last month it was considering a bid for Mirror, but decided not to go ahead with an offer.

Mr Blank is thought likely to emphasise his support for the management under Mr Montgomery, who has faced criticism from analysts over the underperformance of the group's shares, caused partly by doubts over strategy.

The role at Mirror is Mr Blank's most significant since he stepped down as chairman of Charterhouse in June last year. He is also deputy chairman of Great Universal Stores, and on the board of Coats Viyella, the textiles group, and Williams, the security group. His latest appointment is believed to have been approved by key Mirror shareholders such as PDFM, the fund manager which owns 23 per cent of the media group, and Prudential.

Several branding consultants have approached Mirror about coming up with a new name to embrace the group's different businesses.

Engineering shares decline splits analysts

By Andrew Edgecliffe-Johnson

A steep drop in the share prices of UK engineering companies over the past month has divided analysts, with some warning of further trouble ahead, but most saying that an over-reaction has created buying opportunities.

Fears about the impact of the Asian crisis and the strong pound have knocked more than 15 per cent off average valuations, since Siebe warned a month ago that it would have to accelerate cost-cutting programmes in order to cope with price deflation and tougher markets.

Among FTSE 100 and FTSE 250 companies, the average fall has been closer to 30 per cent. Some chief executives are privately irritated about what they see as an indiscriminate approach to valuations.

Siebe, the largest in the sector, has fallen 20 per cent behind the FTSE All-Share index since its warning. Weir, TI and Glynwed are showing 22.5 per cent falls against the market, and IMI has dropped 29 per cent in relative terms.

The large engineering vehicles groups, GKN and LucasVarity, have both fallen by 13 per cent.

Analysts at Dresdner Kleinwort Benson and Warburg Dillon Read issued bearish notes on the sector last week, suggesting worse to come.

Colin Fell of Dresdner Kleinwort Benson said yesterday: "Siebe changed the tone and brought a bit of reality to the situation. Prices have been massively undermined by sterling's rise from DM2.90 to DM3.02, and by the Far East."

Mr Fell warned: "Assessing any value at the moment is difficult. I don't think you can forecast precise figures confidently."

Harry Philips, engineering analyst at Panmure Gordon, added: "In the last month, the realisation has set in that south-east Asia is going through a second phase hit that is having a knock-on effect on the US. Suddenly, assumptions of 9 per cent earnings growth are going to prove to be optimistic."

He added, however, that the sector's slump had been "broad-brush and overdone". He pointed to some analysts' recent profit downgrades for IMI, which came despite assurances from Gary Allen, chief executive, that nothing had changed since his full-year results statement on March 9.

"[Forecasts at] IMI were downgraded by 3-6 per cent, but its shares are off 29 per cent. It doesn't stack up," he said. "There are some cracking opportunities to buy stock."

Paul Compton of Merrill Lynch challenged some analysts' belief that many engineers had a disastrous month in May.

"Selectively, it is worth buying," he said.

Sector braced against the wind from the East

Peter Marsh on the sangfroid of British manufacturers in the face of economic turbulence in their Asian markets

As the economies of south-east Asia have slid into turmoil in recent months, Britain's engineering companies have held their breath.

Not only is the region an important export market, but much of the engineering and capital goods industry would suffer almost immediately from any broad fall in investment triggered in other countries by a general slowing in economic growth linked to the Asia crisis.

With the strong pound, which is once again touching DM3 after signs of weakening two weeks ago, eroding export margins, it is no wonder the UK's engineering sector has been a stock market weakling in recent months. But so far few engineering companies have followed the lead of Siebe, one of Britain's biggest in this sector, which this month announced 2,000 job cuts worldwide to cope with economic shocks, including turbulence in east Asia.

Most are putting a brave face on events. They hold out few hopes of immediate increases in growth in the region but point to good longer-term prospects – or even refer to specific business opportunities linked to the crisis.

GKN, which divides its business between vehicle components, helicopters and pallet distribution, has taken the chance to strengthen its long-term position in Thailand and South Korea by pushing from about 50 per cent to 100 per cent its ownership of two motor parts manufacturing ventures.

GKN's partners in the plants, both hit by the region's problems, were anxious to sell their stakes at a fairly low price, while the Thai and Korean governments relaxed their previous tough rules on foreign ownership because of the need to attract more overseas investment. "You could say the crisis has had a silver lining for us," said CK Chow, GKN's chief executive.

While Mr Chow does not hide his concern about the possibilities of a further worsening of the Asian turmoil, particularly the possibility of it spreading to China and India, he points out that last year the worst-hit "tiger" economies of south-east Asia accounted for only 0.3 per cent of GKN's £3.4bn revenues.

Also fairly sanguine is Gary Allen, chief executive of IMI, a maker of valves, pneumatic products and drinks dispensers for cafés and other soft-drinks outlets. About 5 per cent of the company's £1.5bn annual sales come from Asia, with China accounting for a large share of this. "We are still bullish about China, particularly in drinks dispensers where we are seeing good interest from breweries," said Mr Allen.

In valves, IMI last year set up its first manufacturing venture in South Korea, only to see demand knocked back by the economic trouble. "There are now signs of demand coming back again, with orders beginning to reappear from Korea and Thailand for projects such as power stations," said Mr Allen.

Other companies say the effect of Asia's problems has been offset by strong growth in other important markets, particularly the US and continental Europe.

Sir Ron Garrick, chief executive of Weir, one of the world's biggest pumpmakers, said that since 1995 Asia had been responsible for a diminishing share of his company's order book. The South Korean shipbuilding industry – a big buyer of pumps – has so far been little affected by the turbulence because it is heavily export-driven; if anything this business has been made more competitive by the devaluation of the currency. "Demand from the region is not very good at the moment but I don't see any mammoth impact on us," said Sir Ron.

At Rotork, the world's biggest maker of control systems for heavy-duty valves used in industries such as oil and gas, about a third of the company's £93m sales last year came from Asia-Pacific. Specific "problem" countries including Thailand, Malaysia and Indonesia accounted for 9 per cent of total sales.

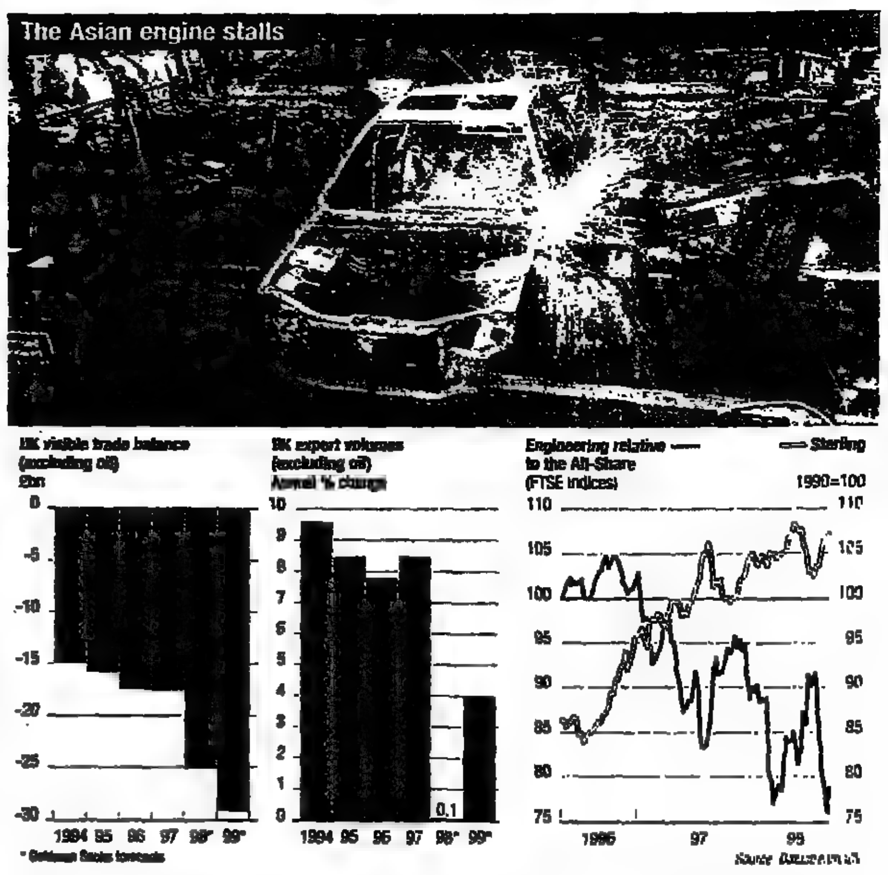
"We had been looking to expand our sales in these [problem] nations by 7-10 per cent this year – now we are expecting the business to be similar to last year," said Bill Whiteley, Rotork's chief executive. "I have some concerns about the prospects for next year but the impact of any weakness in the region is reduced by the good business we are seeing in other parts of the world such as North America."

At Babcock, a big maker of materials-handling systems for Asian markets, John Parker, chief executive, said business in the region was "difficult". Last year, of Babcock's £200m of non-UK sales, about a third was in Asia – with the "problem" countries such as Thailand and Malaysia which have devalued their currencies accounting for about a third of this.

"If we had more of our manufacturing in Asia, it would be more of a problem," said Mr Parker. "But because we design our equipment away from the end market and use local subcontractors for much of the production, we are in a better position to turn our attention to other parts of the world where prospects are better."

Other companies in "niche" markets say they are likely to suffer less than more broadly based competitors. Indeed, those with products that enhance productivity, such as Cookson, say they may step up investments in Asia as businesses there respond to the pressures by trying to become more competitive.

Provided the Asian virus is contained, it seems British engineers may emerge relatively unscathed. The present worries may be overdone. But the fear remains that if western economies begin to suffer from Asia's upsets, many engineers will prove vulnerable to any general economic slowdown.



Glaxo HIV drug aims to beat side effects

By David Pilling in Geneva

Glaxo Wellcome, the UK pharmaceuticals company, yesterday presented clinical trial data for abacavir, an HIV drug submitted last week to US, Canadian and European authorities for approval.

Glaxo, which was promoting its compound at the 12th World Aids Conference in Geneva, hopes the US Food and Drug Administration will approve abacavir by the end of the year.

Abacavir is a nucleoside reverse transcriptase inhibitor, a class of drug that aims to suppress HIV levels by preventing the virus from binding on to a patient's immune cells. The 16-week Phase III trial tested the effect of abacavir in combination with two similar drugs of an older generation.

The worldwide market for anti-retroviral HIV drugs is estimated to be worth more than $3bn a year. Glaxo has a 38 per cent share, with Merck and Bristol-Myers Squibb next, each with about 20 per cent.

Doctors treating Aids patients normally prescribe a "triple cocktail" of two reverse transcriptase inhibitors with one protease inhibitor, a separate class of drug not made by Glaxo.

Protease inhibitors have been extremely successful in suppressing HIV levels when used as part of triple therapy treatment. But there is growing evidence that they may cause severe side effects.

With abacavir, Glaxo plans to offer a triple-drug combination that cuts out the need for protease inhibitors. Trials showed that HIV levels in patients previously untreated for it could be reduced to levels comparable with those on regimens containing protease inhibitors.

DuPont Pharma, the drugs arm of the US chemical company, is pursuing a similar strategy with efavirenz, clinical data for which were also presented yesterday. Efavirenz is a reverse transcriptase inhibitor like abacavir. It is being tested in several combinations, some with protease inhibitors.

Glaxo is not putting all its eggs in one basket. It has US and European rights for amprenavir, a "second generation" protease inhibitor being developed by Vertex, a US biotechnology company.

Rothschild Cont'n spins off non-financial side

By Clay Harris

Rothschild Continuation Holdings, Swiss parent company of the UK-based NM Rothschild investment bank, has demerged its non-financial assets into a private equity vehicle.

RCH also said yesterday it had increased after-tax profits by 40 per cent to SFr155.3m ($104.2m) and broken the SFr1bn barrier in operating income in the year to March 31.

The initial holdings of the new company, CINV, include minority stakes in Domaines Barons de Rothschild (Lafite), the producer of premier cru clarets, and the Economist Group, the publishing company. Pearson, owner of the Financial Times, holds 50 per cent of the Economist.

But CINV plans to diversify its interests, investing in and managing international development capital funds and taking direct private equity stakes in non-financial companies.

Sir Evelyn de Rothschild, chairman of RCH and of NM Rothschild, said one reason for the demerger was to remove peripheral activities, as financial regulators were likely to become increasingly wary about banks' non-core activities.

RCH will focus on global management and co-ordination of the group's activities in investment banking, bullion, resource banking and asset management. Funds under management rose from $31bn to $37bn.

Sir Evelyn said he was pleased by the group's results in "competitive and volatile" markets. Even subsidiaries in Hong Kong and Singapore had increased operating income and profits in spite of the regional financial upheaval.

He saw the performance as evidence the family-owned group could compete and prosper against much larger publicly traded investment banks. But he added: "We're not complacent. We've got to be revolutionary to survive."

RCH's total operating income rose 20 per cent to SFr1.01bn, with pre-tax profits advancing by nearly 11 per cent to SFr200.4m.

Operating income at NM Rothschild increased 25 per cent to £221m (£168m) and operating profit before profit share and tax rose 18 per cent to £89.9m.

Cammell Laird still growing

By Andrew Edgecliffe-Johnson

Cammell Laird, the ship repair and conversion group whose shares have risen fivefold since its flotation last year, said yesterday that the full benefits of recent expansion will not be seen until the coming year.

The development of its Birkenhead shipyard on Merseyside from one dry dock to three, coupled with its new lease of the docks and quay in Gibraltar, helped lift pre-tax profits 88 per cent to £4.18m ($6.98m) in the year to April 30.

Turnover was 40 per cent higher at £31.7m, and a maiden full-year dividend of 4.4p is being paid from earnings per share of 16.9p (11.7p).

The shares, which were placed at 100p last June, lost some of their recent gains, slipping 35p to 490p.

Juan Kelly, chairman, said the increased capacity and new businesses meant that sales and profits doubled in the second half of the year.

He added: "Even so, the second half did not reap the full benefits, since much of our progress only affected the last three to four months of the financial year."

Brett Martin, finance and commercial director, said the group had also taken a disproportionately large amount of the expansion costs during the period, as it recruited extra staff before receiving the revenues for the extra work.

The group's workforce trebled to 800 in the past year.

EURO PRICES

EQUITIES

Tokyo recovery helps Europe

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Trans-European equity indices rose yesterday as a recovery in Tokyo stocks and an early rally on Wall Street set a positive tone for a continent short of its own market-moving news.

The FTSE Eurotop 100 index closed up 20.41 at 2913.40, while the broader 300 index ended 6.30 higher at 1257.51. The Ebloc 100 index, which tracks companies from countries joining European monetary union in the first wave, closed at 1051.73, up 5.64. Meanwhile, German's Ifo economics institute, in a report to be published today, said short-term interest rates in Euro zone countries would converge around 4 per cent in preparation for January's launch of Emu. Ireland, Italy, Portugal and Spain would have to lower their rates, while other member states would have to raise theirs slightly.

However, in an interview with a German newspaper, Wim Duisenberg, the president of the new European central bank, was quoted as saying interest rate convergence should be at the lower levels now seen in Germany and France, given their relative economic weight in the euro zone. But analysts said markets would continue to attach more weight to interest rate comments from the Bundesbank in the months leading to monetary union, and might be less sanguine than Mr Duisenberg.

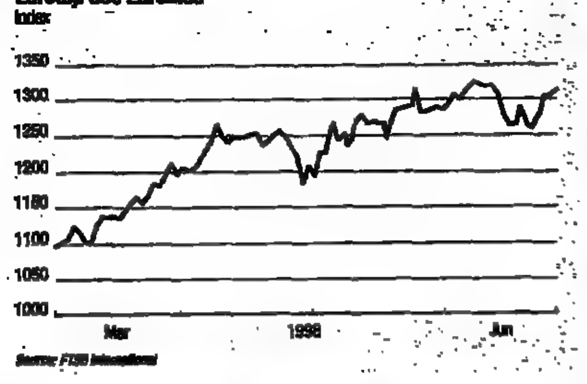
The best performing FTSE sector yesterday was support services, which rose 2.7 per cent. Adecco leapt Ecu 28.2 to Ecu 395.70.

Alcoholic beverages rose 2.5 per cent, with LVMH up Ecu 2.8 at Ecu 182.04 and Heineken Ecu 2.1 higher at Ecu 35.81. Healthcare rose 2.17 per cent, with Nycomed Amersham up Ecu 0.1 at Ecu 6.83. Declining sectors included food producers, dipping 0.70 per cent, and telecoms, 1.8 per cent lower.

In a report on growth rates among the 11 Emu "in" countries, Salomon Smith Barney said the recent stabilisation or slowing of growth in several states had raised fears of a re-run of the 1995 slowdown, which scuttled the recovery of 1994.

But Salomon predicted Emu 11 growth would accelerate on average to 2.9 per cent this year and 3.2 per cent in 1999, from 2.4 per cent last year.

Eurotop 300 Eurobloc Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

June 29

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1257.51	+0.50	+6.30	2.19	17.86	1286.25
FTSE Eurotop 100	2913.40	+0.71	+20.41	2.18	23.60	1037.78
FTSE Ebloc 100	1051.73	+0.54	+5.64	1.76	10.99	1063.16

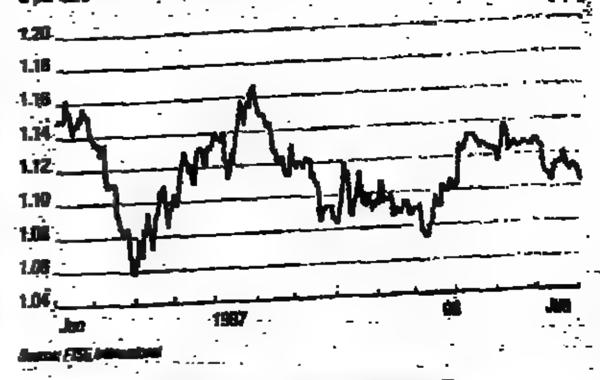
OTHER INDICES

FTSE EUROTOP 300

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Synthetic Euro against the dollar

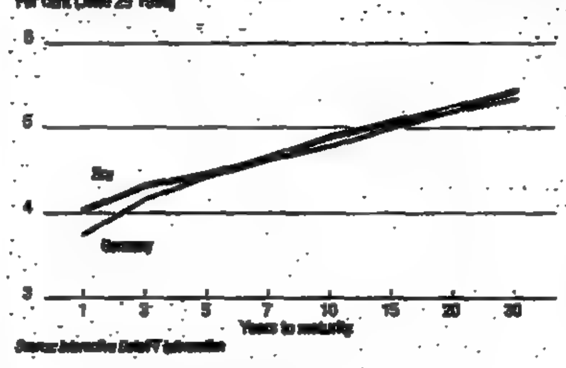


Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

BONDS

Bond yield curve



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

GOVERNMENT BOND SPREADS vs ECU

EUROZONE CREDIT SPREADS vs ECU

BUSINESS ARTS SPONSORSHIP

Industry is seeking more for its backing of the performing arts but, reports **Antony Thorncroft,** recognition of these demands has forged a relationship stronger than ever

New tunes and more harmony

On the surface arts sponsorship in the UK is experiencing a golden age. Expenditure by business on the arts rose by 20 per cent last year, to a record £95.6m. There may be excusable doubts about the accuracy of the figures but the message is unmistakeable – business and the arts have forged a mutually beneficial relationship.

But at the same time that relationship is being dissected as never before and, to a great extent, has been found wanting. The institution that has guided the growth in arts sponsorship, the Association for Business Sponsorship of the Arts (Absa), is so concerned about the future that it is about to change its name, dropping the word "sponsorship" from its title.

It is seen as old fashioned. In the same way traditional sponsorships – a company underwriting an orchestral concert, or paying for the cost of a new opera production – are regarded as still vital for the arts organisation but not so relevant for the sponsor. Companies are always looking for the next good idea and arts sponsorship must adapt to survive.

There is the fear that the new younger generation of managers, paid to produce higher profits, have no great knowledge of the arts and are dubious about their relevance. There is also a growing tendency of companies to hand over marketing decisions, which often cover sponsorship spending, to regional managers, who are not all culturally sophisticated.

Absa is re-creating itself, helping to convert the new breed of executives by re-defining sponsorship. It is no longer a question of business giving money to the arts but of business totally embracing the arts, appreciating how the arts can improve corporate performance. It is a tune that co-incides with the Government's discovery of the importance of the creative industries, of 'Creative Britain'.

Absa aims to bring artists – actors, painters, poets, musicians – into companies to awaken the creative juices of not just the marketing and public affairs departments but also personnel, corporate training, even the shop floor. The vehicle for change is the Creative Forum which has been set up under the patronage of the Prince of Wales to raise money to undertake pilot schemes, involving the arts with business.

Already 18 companies have committed £20,000 a year for three years to help map out the future. They include companies that have come lately to sponsorship, such as Orange and Coutts Bank, plus long-term supporters, such as American Express and BP.

One of the Forum's first ventures was to send actors into the offices of Beefeater Gin to educate the staff in the meaning of body language, improve communication skills and broaden imaginations. The drive is on to discover how the arts can help to change organisations for the better.

Hand in hand with this philosophy are such developments as Business in the Arts – through which companies support the arts not with cash but by giving them the part-time expertise of their executives in such areas as IT, marketing and accountancy – and the Board Bank – through which senior managers, or even directors, gain greater organisational experience by joining the boards of arts companies.

The corollary to the arts permeating business is that arts organisations, in their turn, must become more businesslike. This is exactly the view of the new chairman of the Arts Council, Gerry Robinson. If arts companies are not better run they stand to lose their subsidy.

Although, on the surface, arts sponsorship in the UK is a story of almost unimpeded expansion, with investment growing from around £600,000 in 1976 to approaching £100m this year, below the surface there have been dramatic changes. At the start, the support came from a handful of tobacco and oil companies, plus banks and insurance companies, which were mainly concerned with corporate entertaining and favourable PR. Now there is much more interest in using the arts for marketing, supporting the arts to reach a targeted group of consumers.

Companies move in and out of sponsorship; of the top 10 spenders a decade ago only two, Marks & Spencer and BT, are still big spenders. And, in recent months, BT, which with a budget of around £2m a year competed with Lloyds Bank as the biggest arts sponsor, has started to re-consider its involvement. It concentrated on work with young people and the community and may use channels other than the arts to help these groups.

By chance, Lloyds, which was much more concerned with getting TV coverage of the competitions it supported, the Young Musician of the Year, for example, is also assessing its commitment. The vagaries of corporate support for the arts, often due to changes in management, plus the appeal of alternative claimants on the same pot of money, such as improving the environment and helping inner cities, are the main reasons why Absa is keen to make out a more powerful business case for arts sponsorship.

Colin Tweedy, director general of Absa, is only too aware that some of the bad publicity surrounding the arts lottery, the whinging of 'luvvies' and excesses of highly subsidised companies, has put some chief executives off the arts: and chief executives remain the key to corporate involvement.

Fortunately there are always new sponsors delighted with the experience. In 1995 Ernst & Young made a massive committment to the Picasso show at the Tate. It was such a success – as a means of meeting potential new clients, in motivating its work force and in getting the consultants' name better known – that it went on to sponsor exhibitions of Cézanne and Bonnard at the same Gallery. This autumn it is making its largest ever committment, heping to bring Monet's later paintings to the Royal Academy. In total, in direct aid and in hospitality, Ernst & Young must have channeled almost £5m into the arts: it is more than happy with the results.

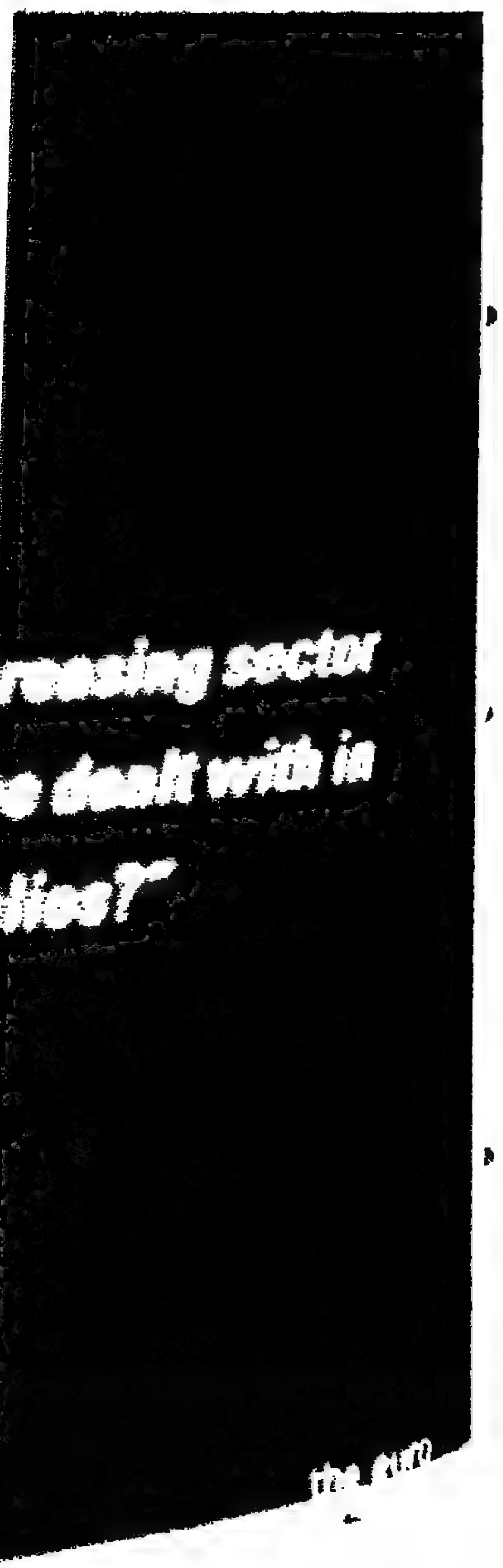
Other companies that have recently embraced arts sponsorship with enthusiasm are Orange, mainly through its women's literature prize, which has attracted much attention; Rover, which has put £800,000 behind the London Symphony Orchestra; Sun Microsystems, which has promised the ICA £2m over two years to help introduce artists to the computer; Canon UK which is giving the Victoria & Albert Museum £1.2m over five years to create a photography gallery; and Draught Bass, which has joined many brewers in using contemporary art to reach younger drinkers.

Most of these investments are seeking greater brand awareness. Perhaps the main attraction of arts sponsorship is the width of its impact. Its importance as an opportunity for corporate hospitality is famous, with a greater social cachet than its rival, sport sponsorship; it involves the work force as well as the community in which a company operates and it sparks off favourable PR; it fulfils a charitable role and few companies doubt that they should give something back to society; and, in a profit conscious era, it can sell goods and services.

Most companies can find something to their advantage in sponsoring the arts. Certain companies, for example AT&T, which has backed the Almeida for seven years; BP, which has been linked with the Tate's New Displays exhibitions for 10 years; and Brother International, which has helped the Hallé for nine years, need no lectures in the gains from the relationship.

Today, the arts world has few fears about getting into bed with business: it is very hard to find examples of sponsors trying to influence artistic output. The Government, too, encourages the link, mainly through the Pairing Scheme which gives £5m a year to seed corn the contacts, and is looking at ways of improving its involvement.

Arts companies should never get too dependent on sponsorships which, in most cases, have a finite life span but this is an industry which seems to have reached middle age with its idealism intact, its usefulness proved and its future, albeit a much changed future, bright.



PROFILE The Almeida/AT&T

Prop supports theatre of dreams

It is hard to believe now that for its first 10 years the Almeida was not even a bona fide fringe theatre, most of its season being taken up with touring productions.

Today, the Almeida is not only a theatre which Hollywood stars are happy to play and to which the likes of Dame Diana Rigg, Ralph Fiennes and David Hare make enthusiastic returns, it is a West End producer in its own name.

The difference, substantially, can be put down to sponsorship. Finances in theatre production never match ambition and, although the 300-seat Almeida in Islington has a modest £420,000 subsidy from the London Arts Board, it has to raise another £600,000 a year just to stay open.

In this context, AT&T's long-term commitment – reviewed every year but now seven years old and, according to both sides, secure – has been crucial.

In 1990 new joint artistic directors, Ian McDiarmid and Jonathan Kent, plunged the Almeida into the big gamble that all theatre companies dream of but too many find they cannot afford – total home production, rather than hiring out their stage to touring shows.

The journey from those pre-Kent/McDiarmid days, when the Almeida was best known for its annual music festival, to opening its own production, as the Almeida did earlier this month, at the Old Vic starring Kevin Spacey, an A-list Hollywood actor with leading roles in *The Usual Suspects* and *LA Confidential* behind him, looks like a smooth progression.

On the A-list: the Almeida now has the clout to attract stars such as Kevin Spacey

Crucially, progress on the artistic side has been matched by a development of AT&T's commitment.

It all began in the year after Kent/McDiarmid decided to cross the Rubicon and make the Almeida an exclusively producing theatre rather than a receiving house. AT&T, the American communications giant, was new to the UK and eager to make its presence felt, according to public relations vice-president for Europe, Burt Wolder.

"We had a track record for supporting the arts in the US but we were new to the UK and we wanted to be associated with something that was innovative, with an exciting future," he says. "We met the Almeida people by chance and it fitted the bill, as it has ever since. We can help make something important happen and, at the same time, we have something to show to our customers and people we want to impress.

"There was never a time limit to the sponsorship. We believe in the long-term and our view is that if it's working, why change it?"

The association began in the 1991-92 season with individual production sponsorship when AT&T supported two plays, each at £30,000. The Almeida game-plan was to bring a mixture of classical plays and new work to the theatre and that first season saw Dryden's *All for Love* with Diana Rigg contrasted with Tom Massey's modern piece *The Gili Concert*.

In 1993 AT&T raised its commitment with a national tour costing £70,000 and, the following year, more than doubled it with the famous Ralph Fiennes *Hamlet* which transferred to the Hackney Empire and then to Broadway. In 1996 that was capped when the production of Chekhov's *Ivanov*, starring Fiennes again, was taken to Moscow.

But for 1996-97, AT&T raised its stake yet again, this time by sponsoring the whole Almeida season of three productions for £170,000. This was not to be a simple programme of support for productions at the Islington theatre itself but to enable the Almeida to raise its earning potential on the basis of the excellence of its product.

Through the 1990s, Almeida productions have graced the West End – Anouilh's *The Rehearsal*, Euripedes' *Medea* with Rigg (which transferred to Broadway), Harold Pinter's *No Man's Land*, Rattigan's *Deep Blue Sea* with Penelope Wilton, Ian Holm's triumphant return to the stage in Pinter's first play for 15 years, *Moonlight*, and Albee's *Who's Afraid of Virginia Woolf?* with Rigg and David Suchet.

However, all of these productions transferred under an established West End producer. He took the risk and the majority of the profit when the risk came off. Although the success introduced the Almeida to an international audience and enhanced its reputation, the box office contributed almost nothing to the Almeida's budget.

In 1997 the Almeida, with the backing of AT&T, decided to take the risk itself with the hope of all the rewards of success when it produced the world premiere of David Hare's play about Oscar Wilde, *The Judas Kiss*, starring Liam Neeson. It sold out.

In the '97 season Hare also directed the revival of Shaw's *Heartbreak House* and McDiarmid appeared with Tom Hollander in Kent's production of Gogol's *The Government Inspector*.

This summer the confidence the sponsorship has given the production team has allowed them to take on running the Malvern Festival where the current Almeida production of Shaw's *The Doctor's Dilemma*, starring Ian McDiarmid, Tony Britten and Martin Jarvis will be the high point.

The next 'AT&T Season at the Almeida Theatre' sees three new productions, starting with Diana Rigg starring in Racine's *Phedre* which will open in September at The Albery.

"The AT&T partnership is absolutely central to our development," says Breda Daly, head of development, who is following the route of successful West End producers this year by compiling a list of "angels" – theatre investors – to provide capital for future West End runs.

"It allows us the freedom to look at ways of expanding rather than constantly marking time. It used to be subsidy that allowed you that leeway, now it's sponsorship more and more. You have to have the mix."

Simon Tait

FT/ABSA AWARDS • by Antony Thorncroft

Backers take centre stage

Winners range from a telecoms giant to a Chinese restaurant

Winning an FT/Absa award for imaginative support of the arts matters. There are still some directors, and a handful of shareholders, who wonder whether it is any business of companies to sponsor the arts – other than at Glyndebourne, of course. Brandishing a prize, and receiving the acclaim of your rivals, wins over the waverers.

This is the third year in which the awards have been sponsored by the FT and the relationship has been extended. But by next summer they will be in a different format: fewer of them, with more emphasis on how business can make arts events happen.

So this year's winners are instant history. However, they point to the future: it is hardly a coincidence that sponsorships that bring the arts to young people and into communities, feature prominently on the list. There is little room for glitzy occasions.

Some of the winners are familiar names with a long record of supporting the arts, such as BT which won in the *Best Use of a Commission of New Art* category. Others, for example Edison Mission Energy, which won the *First Time Sponsor* award, are obviously not.

BT commissions a new work of music each year to be performed by 12 leading British orchestras. The BT Celebration Series also encourages local communities to come to rehearsals and concerts to meet the composer. The three year sponsorship has been extended to five.

Edison, which provides power, supports community projects in the areas in which it operates. It took over First Hydro in north Wales, which had backed the local Theatr Clwyd and Edison carried on the link, funding a mobile theatre touring leisure centres and school halls.

A similar involvement with youth and the community won Singer & Friedlander the *Increasing Access to the Arts* prize. It sponsored The Miracles Project, created and produced by London Musici, which involved young people from London Youth Clubs, with little, or no, experience of the arts, in a creative project culminating in a performance at the Royal Albert Hall.

An overseas tour by the RSC is always an opportunity for a sponsor to raise its profile, wave the flag and engage in some corporate hospitality. Standard Chartered Bank enabled the British Council to take the RSC to India and Pakistan. On the way it entertained more than 3,000 clients and won the *International Sponsorship* award.

While arts companies are always looking for new sponsors they rely on consistently loyal backers. BP has won the *Long Term Development* accolade for its financing of the Tate Gallery's "New Displays" rehang since its inception nine years ago. The scheme has helped double visitors and recognition of BP's sponsorship has risen from 25 per cent to 60 per cent.

Companies are discovering that helping the arts can greatly increase brand awarenesss. NTL Cabletel won the cable franchise for Northern Ireland and, to make itself better known there, helped to organise the 100th anniversary of the province's leading arts institution, Belfast's Grand Opera House. The scheme won it the *Single Project* prize.

Most sponsorships are small and local, a matter of a few hundred pounds or so for the neighbourhood arts venue. The coveted *Sponsorship by a Small Business* award was won by Leonard Dews, a jeweller in Fylde which, to celebrate 130 years in business, financed the local Grundy Art Gallery to bring works by London based artist Ben Uri to the town. Like Uri, Dews' managing director Michael Hyman is Jewish and the event was the basis for a two day festival of Jewish music, food and language.

One of the fastest growing areas of sponsorship is *Sponsorship in Kind*. It costs companies less, makes arts events happen and is now recognised in a seperate FT/Absa award.

This was won by Yang Sing, a Chinese restaurant in Manchester, which has entertained the hard pressed Hallé Orchestra's key guests *gratis*. In return the Hallé holds workshops for the Chinese community and the Yang Sing has won new clientele, raised its profile and had help to survive a disastrous fire last year.

The best sponsorships are part of a long term commitment with specific targets in mind. The *Strategic Programme* prize has been won by Rio Tinto which, after acquiring BP Minerals in 1989, decided to improve its image by embarking on a community programme based on the theme of youth and excellence. More than 200 art students have benefitted from scholarships and an Arts Season brings the creative talent of young people to a wider audience.

The actual *Youth Sponsorship* award was won by a long-term sponsor, the Bank of Scotland, which financed jazz workshops in remote parts of Scotland, enabling more than 300 young musicians to have professional guidance. There was also a residential course and a concert at Stirling.

The three other prizes are slightly different. A specific FT/Absa award hands over £7,000 to the arts organisation which has worked most creatively with its sponsors. This year's award has gone to Wingfield Arts, which operates in remotest Suffolk but manages to give the local community a wide range of events.

Sainsbury's is Wingfield Art's principal sponsor, with its stores distributing information about the programme and its staff receiving tickets. Wingfield has also helped raise public awareness of its other sponsors, Primeshare International, Fielden & Mawson and Ensors Chartered Accountants.

There is also the *FT/CEREC* award for an outstanding partnership between business and the heritage in Europe. This was won by Consulta, a grouping of 25 Italian companies which have pooled their cash and knowledge to rebuild and restore the historic city centre of Turin.

It is a relief after all these corporate awards to turn to the one individual honoured in a business in which it is the enthusiasm of individuals for the arts which powers most of the expenditure.

The Arthur Andersen Award for the *Business in the Arts Adviser of the Year* has gone to Imogen Jones, an associate director of Deutsche Bank. She gave up her time to create a business plan and a fund raising strategy for the Heightened Reality production company.

MANAGEMENT EXCHANGE • by Simon Tait

Performance related pay

In return for sponsorship, theatre is bringing its expertise to business

It is not clear how it started. An argument over an empty sauce bottle, it seems, but who knows what motivates a flying fist? What is plain is that the lunchtime tranquility of Allied Domecq's cafeteria at their Bedminton Down administrative centre near Bristol had been burst by two besuited combatants suddenly and zealously setting about each other.

Then, as some scampered to a safe distance and others stepped in to try and calm the situation, it was all over. The assailants had smiles and arms around each other and the other diners looked bemused.

Tea-break a week or so later at the Allied Distillers' Dumbarton bottling plant, another branch of Allied Domecq, and the shop floor workers, only mildly aware of the absence of their two foremen, found two people supping a brew in their bosses' overalls and boots but one of these strangers had been horribly beaten up and the other was, well, a fairy, complete with wand and tiara.

Similar odd events have been recorded in satrapies of the Allied Domecq empire, such as Leeds and Bourne End, but they are not manifestations of some kind of collective madness or subversion. They are part of the company's £5.5m sponsorship of the Royal Shakespeare Company, in which it is learning from the theatre company techniques which its staff will find valuable in their work.

The Bristol punch-up was staged by two fight arrangers involved in the touring production of the RSC's Henry V and their fake fracas was a demonstration of the unexpected in a familiar surrounding and how it can be dealt with.

With the same purpose at Dumbarton, RSC make-up artists took deceptive appearances further with paint and wigs, persuading sceptical shop floor workers to be transformed for an afternoon, their supervisors taking the lead.

They are products of something called Transfusion, a series of brainstorms and workshops for RSC and Allied Domecq managers, one development of which has been the adaptation of theatrical techniques to corporate practice.

At a two-day Transfusion session last October, a group of 20 executives from the development departments of the RSC and Allied Domecq were brought together by an RSC director, Piers Ibbotson, to be made into ensembles.

"When a theatre company is working really well the actors almost have thought transference: they don't have to discuss what each other will do, they know it. Allied wanted to emulate that," Ibbotson says.

Participants had two days of exercises, such as one often used by Peter Brook in which they stood in a large circle each with a long bamboo pole and they had to imagine an object at the centre of the circle which they had to lift together with the tips of their poles.

"We felt pretty silly at first and it's incredibly difficult to do but when it began to work there was an enormous feeling of collective achievement," says Ian Oag, Allied's corporate communications manager.

At the climax of the two days the participants were divided into two teams and told to make a three minute commercial complete with set, costumes, music and either a rap or a rhyming script. The subject was to be the sponsorship.

"We gave them about an hour to get it together," says Ibbotson. "We did it at the end of the day when they were really exhausted, so they had to think laterally and rely on their collective creative ability. And they were good."

So these were not merely unsophisticated mind games but a serious exploration of a new direction of management development, one which is being examined elsewhere in the corporate world.

Art has been making itself felt in boardrooms for years, from commissioned paintings hanging on the wall to bring some calming influence to the sometimes fevered atmosphere, to the corporate jester British Airways employed for a while.

Now it is becoming integral to modern management thinking to help solve even the most intractable of problems. Sainsbury's, for instance, has recently used actor/directors to show far-flung suppliers, who may not be aware of the technicalities of the problem, how to deal with the millennium bug.

"It is an exciting phenomenon," says Tim Stockil, ABSA's director of programmes. "We set up our creative forum in October, through which we made corporate business aware of what could be done, and I have been getting two or three calls a day."

Through its new Arts@Work programme, Absa is organising a series of leadership workshops run by theatre companies for the business world. The first, by Trestle Theatre, was seriously over-subscribed but others are being planned by the RSC and the National Theatre and Absa is compiling a directory of drama companies that that give arts-at-work training.

Arthur Andersen, the corporate accountants, has already had a taste of the Trestle treatment with a recent session, organised by tax partner David Oliver, in which 20 senior executives spent a day experimenting with eye contact, non-verbal communication and expression through movement.

"It was valuable on two levels," says Mr Oliver. "First it was doing damn silly things together, as a group, which brought us closer to each other as colleagues and, secondly, it gave us a sense of how a group can work together and we became conscious of how valuable non-verbal communication can be."

This chimes perfectly with the new chairman of Absa, Robin Wight. "My task," he says "is to help create a strategy that embeds art more securely into business, that makes art a participant in the business process, not a mere supplicant."

But two acute questions arise, one from each end of the transfusion Allied Domecq and the RSC have begun. "It was very exciting but how much we will take of what we learned into our every day business practices I can't tell," says Mr Oag. "And, of course, we can't keep going back for refreshers."

More crucially, can cash-strapped arts organisations afford to return the sponsorship favour in this way? "There is an increasing demand for this and it's given me almost a second career," says Mr Ibbotson. "But no small theatre company, however willing, can afford to provide this kind of service, they don't have the resources in personnel, time or money. Even the RSC might find it difficult but this kind of programme could be worth £1m a year and that runs the company."

TAX • by Simon Tait

Have a heart, give the arts a break

Fiscal incentives will be needed if business is to fill the void left by falling subsidy

The Budget in March was a big disappointment for the arts. Nothing new in that but this time, with the encouragement of a beefy campaign in the national press, there had been high hopes of a taxation change to make arts sponsorship more attractive to individuals and business.

It did not happen, not even the announcement of a review which had been the least expected after a broad hint in last year's Budget that Vat for charities, which most arts organisations are, might be reviewed.

The Inland Revenue might well argue that the arts have been doing very well out of sponsors without the incentive of tax breaks. After all, arts sponsorship amounted to an estimated £600,000 in 1976 while last year it had grown to £95m.

And, in those 20-odd years, business support has diversified. The most common practice is to give cash. There have always been donations and patronage but there is also sponsorship in kind in the form of large fund-raising events organised with commercial promotion, buying works of art for public collections, corporate membership, capital funding for building projects and, most recently, secondments to arts organisations of employees with specialist skills, such as accountants.

Nevertheless, the arts' need for private funding is as urgent as ever as the diminishing level of subsidy is unlikely to recover. And in order to encourage more new sponsors to take on arts projects incentives are going to be required.

After all, the arts in the United States, where there has never been a strong culture of subsidy, are thriving thanks to the generous tax benefits to the individuals and companies that support culture as well as the arts organisations on which they bestow their money.

"The laws in this area have developed over generations and no longer fit the circumstances," says David Oliver, tax partner at Arthur Andersen. "Arts organisations constantly face artificial questions about their status and the tax status of payments made to them. Individuals and businesses are also faced with uncertainty about the tax effect of payments they make to arts organisations.

"There is a pressing need for an overhaul of the laws governing the position of arts and heritage and the tax deductibility of contributions made to them."

Mr Oliver has written a tax guide for businesses and arts organisation on behalf of the Association for Business Sponsorship of the Arts, whose director general, Colin Tweedy, is no less glum about the lack of tax concessions for arts benefactors. "Arts supporters should be left with a warm feeling, not an accounting nightmare," he says.

There are tax releases but they are inconsistent and often depend on a sponsorship being entirely altruistic, which is almost never the case.

There can be tax relief on trading profits through cash sponsorship – payment by a business to an arts organisation for a single event or a series of events in exchange for promoting the sponsor's name – provided it is for revenue and not capital purposes and that the deal is "wholly and exclusively for the purposes of trade".

But the publicity must be the only objective: pursuing the chairman's painting hobby by sponsoring an art exhibition in which his work appears would probably be non-deductible. But even for deductible sponsorships there would be a likely Vat levy.

A commercial agreement for sponsorship in kind might be deductible under the same provisos. A possible approach would be to grant tax deductibility for all contributions to bona fide arts organisations, whether in cash or kind. Provided such contributions are used solely for the purposes of the arts, then the receipts could be tax free.

Donations and patronage generally do not qualify but 'Gift Aid' – one-off unconditional donations – does, though only for registered charities and the British Museum and Natural History Museum, the National Heritage Memorial Fund and English Heritage.

Corporate membership can be tax deductible though there will probably be Vat to be paid and there is an inconsistency in the way different tax inspectors perceive the benefits for either sponsor or arts organisation.

Buying works of art for public show has been popular. The buyer can acquire a work of art as an investment and if it is important enough it could be given on long-term loan to a public collection: in this way the art not only gets public admiration but the care and conservation expertise of curators. It would be regarded as a capital expenditure, however, and, therefore, not deductible.

Backing for fund-raising events probably would not get any tax relief because the payment would not be seen as "wholly and exclusively" for trade. As for capital funding, this is generally not tax deductible.

But the increasingly popular practice of seconding employees temporarily to charity arts organisations is tax effective, although only in as much as the employer continues paying salaries which are tax deductible anyway and there are no Vat implications if the staff are provided free.

Looking abroad for sponsorship, other countries might offer fiscal incentives for private arts funding. There could be tax relief for charitable donations abroad if they are recognised in the donor's own country: other tax systems make a distinction between donations and sponsorship for direct and/or indirect tax purposes.

"You have to make yourself schizophrenic," says Mr Oliver. "You have to have two separate cheque books, one 100 per cent for business and one 100 per cent for altruism because if there is any fogging between activities you'll lose any tax benefit you could be in for. It's a bizarre charade.

"A possible approach to improve the situation would be to grant tax deductibility for all contributions to bona fide arts organisations, whether in cash or kind," he suggests. "Provided such contributions are used solely for the purposes of the arts, then the receipts could be tax free."

Business support of the arts by Arthur Andersen, price £7.50, is available from Absa at Nutmeg House, 60 Gainsford Street, Butlers Wharf, London SE1 2NY.

TRENDS • by Simon Tait

Care in the community

Business is using arts sponsorship to showcase its social responsibility

Drama class: TSB's Artsbound takes theatre to schools

There is a new mission in corporate marketing departments which does not call on their conventional skills simply to sell but requires less familiar crafts to show the corporate social responsibility to the community. The message is: 'Big business cares'.

Arts projects took an early lead with banks and utilities spotting the opportunity to soften their images by addressing matters their customers really care about, such as education.

The trend is encapsulated by the Trustee Savings Bank with its £1m Artsbound project, devised to bring schoolchildren to concerts, plays and museums, and particularly by the TSB chairman Sir Nicholas Goodison's remarks when he launched the third element of the programme, TSB First Act.

"We believe business has a role to play in giving young people first hand experience of cultural life," he said. "TSB Artsbound gives them a chance to broaden their knowledge of the arts."

To deflect any cynicism, however, he went on to confess that there was something in it for the bank as well. "What we're after is creating a profile with young people so that they will grow up thinking we are a good and responsible bank with a stake in the community," he explained.

The play TSB supported, a special National Theatre production of *Twelfth Night*, went on tour to 60 secondary schools around the country. The scheme also involved drama teachers from the chosen schools going to a seminar with the National Theatre to prepare for the company's visit.

But is it enough? Not for Colin Tweedy, director general of the Association for Business Sponsorship of the Arts – which might well change its name to meet the new requirements of business and government.

"The message from government is 'Welfare to Work' and although there is a very definite movement towards community themes, we have to make it much clearer how important to the community as employers the arts are," he says.

"If, as we hope, the government will continue with its £5m a year funding of our Pairing Scheme to match sponsors' contributions with public money, we will be weighting it towards those schemes aimed at needs for training for cultural careers at all levels."

The government is encouraging private involvement in community projects, most openly in public health campaigns. Research earlier this year by Mintel confirmed what bright marketing managers already knew: that consumers are increasingly inclined to make purchases based on ethical considerations – 61 per cent, the research said – so businesses which want to attract their custom should establish their ethical credentials.

The Department of Health has commissioned Saatchi & Saatchi to find companies that will part-fund health awareness campaigns. For every £2 from the private sector the DoH will contribute £1 from its health promotions budget, not a long step from the well-estabished ABSA Pairing Scheme.

"This is an exciting way of enlisting public, private and voluntary sectors to tackle health inequality," says the Minister of State for Health, Tessa Jowell. "I know that harnessing the creative energy used to promote brands to change health behaviour will improve people's lives and help us meet our health targets."

Saatchi researchers talked to marketing directors at 150 UK companies, 94 per cent of whom saw only positive connotations in the practice, with attributes such as social responsibility, caring and good citizenship rebounding to the company.

Glaxo Wellcome are, of course, in the health business and pragmatically acknowledge that drugs companies have a significant task in giving their brands community cosiness but, by concentrating on the "softer" arts sponsorship options, such as visual art, they can channel the focus away from the more contentious issues of the pharmaceutical industry.

This autumn Glaxo has its biggest arts sponsorship so far with the Victoria & Albert Museum's *Grinling Gibbons and the Art of Carving* but the sponsorship is not a straightforward cheque or underwriting. Many of the items are in urgent need of conservation and full involvement of Glaxo Wellcome's own expertise is an important part of the deal.

In another visual arts sponsorship, Glaxo is behind Dulwich Picture Gallery's current At Science Alliance scheme which brings schoolchildren to the gallery to learn about the scientific techniques in the creation of paints and pigments. And for the last two years the company has sponsored the National Youth Theatre's auditions programme.

But it was the privatised utilities which first exploited the community in terms of arts sponsorship, a concept that has become widened into other areas, such as the cause related marketing Mrs Jowell hopes to exploit for the health service.

In the early '90s British Gas Properties got behind an imaginative scheme called the Working for Cities Awards, which sought out inner city projects using the arts in social programmes.

British Telecom, however, has taken it further. They began six years ago with the BT Biennial whereby a successful playwright was commissioned to write a play which would then get its world premiere simultaneously performed by 50 or more amateur dramatic companies across the country. It got BT alongside its customers in the nation's village halls.

Now, according to BT's arts marketing manager Elizabeth Palmer, the company is rethinking its community sponsorship – not to make it less but to make it go deeper.

"We've looked at what we can do with things that affect most people and we've chosen three topics: film, fashion and photography," says Ms Palmer. "Now we're devising ways to get those topics further into the community."

The first is BT's new sponsorship of the London Film Festival this autumn which will involve creating eight mini-festivals in England, Scotland and Wales to show a range of British and international films from the London event. The idea is that BT's interest in innovation and creativity is consolidated in the eyes of its public by bringing it nearer to them.

The first venture into fashion involves sponsoring this year's Royal College of Art *fashion show but with it* goes two bursaries of £6,000 each for first year students. A photography scheme is to come.

"Our view is that there's no point in doing sponsorship, in the arts or any other sector, unless it benefits the community," says Ms Palmer. "With the fashion bursaries we are doing something, we hope, for the employability of two of our most promising young designers. We need to make the emphasis on our community commitment much stronger."

PROFILE The Hallé/Yang Sing

Feeding off one another

Sponsorship-in-kind might be the oldest way for business to give support to the arts and, at first sight, it is not only the least expensive but also the simplest: shoes for dance companies, scenery paint for theatres, airline tickets for touring companies.

The options are almost infinite, they can be complex and some of the partnerships seem bizarre. Who, for instance, would logically pair a symphony orchestra with a Chinese restaurant?

Well, the association between the Hallé and the Yang Sing is two-and-a-half years old now and so satisfied are both sides with the arrangement that neither sees the day when it will end.

The Hallé, of course, is no ordinary orchestra. It has had its recent storms, generated by an accumulating debt, which have resulted in changes in the management, but the standards of the band Sir John Barbirolli endowed with international status have not flagged, neither has its following.

The opening of Manchester's new Bridgewater Hall as the Hallé's home has given it an enhanced standing, too, and an even greater imperative to supplement its subsidy with revenue earnings and sponsorship.

But neither is the Yang Sing an ordinary Chinese restaurant. Set in an 1890 cotton building on Princes Street, the start of the square mile that has become Manchester's Chinatown since the restaurant opened 21 years ago, it has developed its clientele, eschewing advertising and relying wholly on word of mouth. In the year it began its sponsorship programme, the Yang Sing won the Egon Ronay Chinese Restaurant of the Year award.

"What was missing was our standing as a business," says the Yang Sing's commercial director John Warmisham. "Ethnic restaurants have their place but they're never seen by their customers as anything more than a place to eat. They are not considered businesses.

"Manchester is a resurgent city and we're fully committed to it. We want to be counted amongst the business, commerce and *industry of the city as well* as the top restaurants and we saw this as a way of establishing our name in that way."

So, the Hallé needed sponsors and the Yang Sing needed to move among big business circles. Those needs perfectly coalesced when the restaurant became the venue for the orchestra's negotiations.

"Effectively, it was sponsorship of the sponsoring process," says Franceam Doyle, the Hallé's development co-ordinator. "It's the perfect place for relaxed discussions – the Yang Sing lay on the works for us and it's a marvellous atmosphere, a great place to do business."

In return, the restaurant gets a Hallé concert at the Bridgewater at which it can entertain its guests.

But the Yang Sing was not only a place for entertaining the Hallé's potential sponsors, it also began to provide space for the orchestra's education department to give workshops for Manchester schoolchildren.

However, the upward journey of the Yang Sing in Manchester's commercial ladder seemed to come to a sudden, sodden, halt one evening last October when a kitchen fire started in the old 10 storey listed building.

Homeless, the immediate prospect offered not even an income let alone a venue for entertaining the guests of one of the world's leading symphony orchestras.

"The fire spread upwards and outwards very quickly and the firemen had to pour 4,500 gallons of water a minute from the roof down, so what wasn't burned was drowned. It was devastating," says Mr Warmisham. "But we had overwhelming good will. Partly it was because of our 21 years unbroken trading in Princes Street but there was also support from the new friends we'd made with our sponsorships."

To give them a valuable Chistmas season, the management of G-Mex, the exhibition halls, offered its seminar centre and all 8,000 seasonal bookings were honoured. Work began on temporary premises in a Charlotte Street office block on the other side of Chinatown in January, the restaurant opened there in April with its sponsorship duties in full swing again and, in April next year, it will be back at 34 Princes Street in refurbished and improved premises.

"For what works out at about £10,000 a year we get the kind of contacts no advertising campaign could ever provide," says Mr Warmisham.

"We'd love to be able to sponsor to the extent of the big sponsors, such as *Brother and Sharp* (sponsors of Manchester's two football clubs as well as of the Hallé) but we're not in that league. Even so, we sponsor the Manchester City Art Gallery as well and, between the performing and visual arts, our sponsorships are serving us pretty well."

Simon Tait

Concerted effort: the Yang Sing is the perfect place for the Hallé to entertain and the orchestra returns the favour

Prices in narrow trading range

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Prices ended slightly lower yesterday as traders foraged for action in markets starved of domestic news and discouraged by an uninspired performance by the yen.

The Japanese currency reacted mildly after the quarterly "Tankan" business survey showed confidence was not as gloomy as had been expected.

However, it failed to make much headway against the dollar all day and European bonds remained in narrow trading ranges as a result.

"I'd be hard-pushed to say there's been any trend except technical sideways trading," said David Keeble, bonds analyst at Credit Suisse First Boston.

In the UK, data showed net consumer credit rose in May above expectations but gilts were unmoved as investors appear to have priced in the possibility of an interest rate rise when the Bank of England's monetary policy committee meets next week.

US TREASURIES were mixed in morning trading, with attention focused on the start today of a two-day meeting of the Federal Open Market Committee.

By early afternoon the 30-year bond, the benchmark for long-term interest rates, had lost ¼ to 105¾, yielding 5.643 per cent.

Among shorter-term issues the two-year note rose 1/32 to 99 25/32, yielding 5.492 per cent, while the 10-year note was unchanged at 101¼, yielding 5.459 per cent.

Analysts continue to see little threat of an interest rate rise from the FOMC and, in spite of economic releases due this week, including an employment report and a new purchasing management survey, the market is expected to remain focused on currency movements.

"We're still very much range-bound from 5.68 to 5.60 per cent [for the 30-year yield]," said Dennis Hynes, chief investment strategist at R. W. Pressprich. "What keeps this market anchored is the employment report on Thursday, and the only thing that could disrupt that this week is considerable weakness in the yen."

New home sales in May broke records with 890,000 units sold, up from a revised 887,000 in April – the ninth straight month that new home sales exceeded 800,000.

That surprised analysts, who were expecting the May figure to cool slightly from the previous month.

GERMAN BONDS competed for attention with World Cup football action, with the September 10-year bund future settling unchanged at 108.46. Volume was thin, with 169,000 contracts traded in Frankfurt.

Analysts said the market would not pay much attention to data due this week as they are mostly of "second-tier" importance.

However, there would be increasing scrutiny in coming weeks of the Bundesbank's stance on interest rates and how it will handle the handover of monetary policy to the European Central Bank in January.

Although most economists agree a rate rise is probable in Germany towards the end of the year, they are divided on whether the Bundesbank will leave it for the ECB to handle when it takes over monetary policy in January, or raise rates beforehand in order not to leave the ECB with an inflationary legacy.

"People are changing from Bundesbank-watching to ECB-watching," said Gerlof de Vrij, at ABN-Amro Bank in Amsterdam.

UK GILTS closed lower, shrugging off data showing consumers borrowed £1.3bn in May. The market believes a rise in interest rates is likely when the Bank of England monetary policy committee meets next week.

"I expect gilts will be nervous all the way to the meeting," said Neil Parker, treasury economist at Royal Bank of Scotland.

The September 10-year gilt future settled down 0.11 points at 108.53. In the cash market, the yield spread between the benchmark gilt contract and its bund equivalent widened three basis points to 120 points.

Volume of UK new issues recovers

By Vincent Boland

The flotation of Thomson Travel, the UK package holiday group, last month helped London's equity new issues market to post a strong recovery in the second quarter of this year after a sharp slowdown in the first three months.

According to a survey by KPMG Corporate Finance, UK companies raised £2.72bn in equity capital in the three months to end-June, with Thomson Travel accounting for £1.7bn of the total. The flotation of Computacenter, the computer services group, which raised £297m, also boosted turnover.

First-quarter activity this year was the weakest for six years, but according to Neil Austin, head of new issues at KPMG Corporate Finance, smaller companies are returning to the limelight.

"Smaller companies are more fashionable now with investors than they were last year and their performance relative to larger stocks is improving," he said.

Altogether, 31 companies joined the stock market in the second quarter, making *it the busiest period for new* listings since 1996. In the first quarter there were only 12 new issues, raising £246m. One hundred companies listed in 1997, raising £3.6bn, excluding privatisations.

Significantly, 15 of the new issues in the second quarter have been on the London Stock Exchange raising £20m or less each, rather than on the alternative investment market, set up three years ago to persuade *small companies to go pub*lic. This is bad for AIM and could spell trouble for listed small companies in a market downturn, Mr Austin said.

NEWS DIGEST

ELECTRONIC TRADING

CFTC seeks comments on admitting foreign screens

The Commodity Futures Trading Commission, the agency that regulates futures markets in the US, is about to put out a "concept release" dealing with the contentious issue of how widely non-US exchanges should be permitted to distribute electronic trading terminals within the US.

A concept release is essentially a request for comments on a specific subject, but usually precedes some rule-making changes on the agency's part. *Michael Greenberger*, director of the CFTC's division of trading and markets, said at a conference in Chicago that the release was currently being drawn up and should be available within the next two weeks.

The issue of access to non-US exchanges' screens within the US has been controversial in the past, although the CFTC has taken a more relaxed line than the Securities and Exchange Commission, which regulates securities markets. The CFTC allowed Deutsche TerminBörse, Germany's all-electronic futures exchange, to bring screens into the US two years ago, provided these were placed within the offices of US-based member firms.

The agency still has no set procedures or guidelines on this issue but has recently received requests from various foreign *exchanges seeking* to place terminals in the US. The DTB, which has cornered the lion's share of trading in the important bund contract from the rival London International Financial Futures and Options Exchange, would also like to increase terminal availability.

Mr Greenberger said the CFTC would "very interested" in how receptive overseas jurisdictions might be to allowing US exchanges to put terminals into their respective home markets – implying some form of reciprocity might be considered.

Greater access for overseas-based electronic markets could be expected to meet some resistance from US exchanges, since it would lead to greater competition. However, news of the CFTC's concept release was welcomed by Daniel Hodson, chief executive of Liffe, speaking at the same conference. Liffe, traditionally an "open-outcry" exchange, is currently accelerating plans to introduce full electronic trading, partly in response to the DTB challenge. Nikki Tait, Chicago

SYNDICATED LOANS

PowerGen finances acquisition

PowerGen has secured a £2.4bn syndicated loan to finance its purchase of East Midlands Electricity from Dominion Resources for £1.9bn. The loan was led by Deutsche Bank, Goldman Sachs – which was also financial adviser to PowerGen – and HSBC. A £500m tranche will be a 364-day credit line, to be repaid from the proceeds of asset sales, while the remainder of the loan will be for five years.

PowerGen's last loan was priced at 22.5 basis points over Libor, but it is understood that the £2.4bn facility will be priced at about 50 basis points over Libor, reflecting its size and less supportive market conditions. Simon Davies

High-yield deal from Sirona

INTERNATIONAL BONDS

By Vincent Boland and Edward Luce

Europe's hesitant junk bond market got a much-needed boost yesterday when Sirona Dental Systems, a maker of dental equipment, raised DM170m in a high-yield 10-year callable issue, to refinance part of its DM701m management buy-in last December from Siemens, the German industrial group.

The issue carries a coupon of 9⅛ per cent and was priced to yield 440 basis points over the 10-year bund, *at the tight end of a pricing* range set during roadshows in the past few weeks.

The bond contains a 40 per cent equity clawback feature which will allow Sirona to repay that amount of the bond if it has an initial public offering in the future.

Warburg Dillon Read, lead manager, *said more than 80* per cent of the bond was placed with European investors, with 18 per cent in the US and the remainder in the Middle East.

"A significant number of [European] investors in this transaction have never invested in this type of issue before, which is a good sign," said Christopher Damico, executive director, leveraged finance at Warburg.

"This provides Sirona with a *strong European investor* following ahead of any future IPO and also demonstrates that European investors are becoming increasingly comfortable with these types of investments."

BCI US FUNDING TRUST, the vehicle acting for the Italian bank, became the latest European bank to tap the *perpetual step-up market* with a two-tranche offering in euros and sterling.

The deal, led by Merrill Lynch, follows similar offerings from Intesa, the Italian bank, and a holding company that is part of the group including Banco Espirito Santo, the Portuguese bank.

Yesterday's offering, equivalent to about $750m, was by far the largest of its type in a European currency. The E500m portion, distributed widely to institutional investors in Europe, was priced at 168 basis points over Libor while the £120m tranche was priced at 248 points over gilts. The deal is callable after 10 years.

Its deeply subordinated nature means the paper is as closely related to equity as a debt issue can be.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
D-MARKS							
Renault Crédit Intl‡	300	(a)	99.839	Jul 2003	0.15	-	ABN Amro
Sirona Dental Systems(b)	170	9.125#	100.00	Jul 2008	undisclsd	+440(Jan08)	SBC Warburg Dillon Read
STERLING							
BCI US Funding Trust(c)	120	8.25#	99.271R	undated	1.00R	+248(Dec07)	Merrill Lynch International
ITALIAN LIRE							
Class(d)	150bn	(d1)	100.00	Jul 2018	0.90	-	Deutsche Bank
SWISS FRANCS							
Oest Kontrollbank	500	3.25	102.80	Jul 2005	2.50	-	Warburg Dillon Read
New Zealand Dairy Board‡	200	(f)	100.05	Jan 2000	0.07	-	Merrill Lynch Capl Mkts
EUROS(e)							
BCI US Funding Trust(c)‡	500	(c1)	99.415R	undated	1.00R	-	Merrill Lynch International
GREEK DRACHMA							
KfW International Finance	10bn	8.50	99.66R	Jul 2001	0.225R	-	Morgan Stanley DW

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +⅛%. b) Callable after 5 yrs. 40% equity clawback. c) Preference shares. Callable from Jul 08 at par. c1) 3-mth Libor +160bp to Jul 08, then +293bp. d) Credit-Linked and Structured Securities. d1) 12% in yr 1, 10% in yr 2, 8% in yr 3, then 7½%; subject to emerging market credit events. e) Payments in Ecu prior to Emu. f) 3-mth Libor flat.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jun 29	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	102.9188	5.25	+0.02	–0.03	+0.51	–0.20
	10/07	10.000	131.5102	5.66	+0.02	–0.07	+0.23	–1.50
Austria	09/99	7.000	103.4800	3.90	–0.03	–0.09	–0.06	+0.16
	07/07	5.625	106.5900	4.65	+0.01	–	–0.07	–0.84
Belgium	01/00	4.000	99.9200	4.04	–0.02	–0.06	–0.04	+0.48
	03/07	6.250	109.4400	4.89	+0.01	–0.01	–0.07	–0.88
Canada	09/99	4.750	99.4300	5.24	+0.01	–	+0.10	+0.74
	06/07	7.250	113.1900	5.36	+0.01	+0.03	+0.06	–0.88
Denmark	12/99	6.000	102.4400	4.20	–0.01	–0.09	–0.10	+0.07
	11/07	7.000	115.2300	4.93	–0.01	–0.05	–0.14	–1.27
Finland	01/99	11.000	103.7382	3.70	–0.01	–0.01	–0.04	–0.03
	04/06	7.250	116.6310	4.91	–0.01	–0.02	–0.09	–1.18
France	01/00	4.000	100.0458	3.96	+0.01	–0.06	–0.04	+0.38
	10/04	6.750	111.9700	4.52	–0.01	–0.08	–0.11	–0.54
	10/07	5.500	106.2000	4.79	+0.01	–0.01	–0.09	–0.76
	10/25	6.000	109.2700	5.34	–	–	–0.09	–1.13
Germany	09/99	4.000	100.1900	3.82	–	–0.07	–0.05	+0.32
	11/04	7.500	115.7500	4.58	–	–0.04	–0.08	–0.05
	07/07	6.000	108.9100	4.76	+0.01	–0.02	–0.11	–0.90
	07/27	6.500	116.8700	5.34	+0.01	+0.01	–0.08	–1.12
Ireland	04/99	6.250	100.5800	5.37	+0.01	–0.03	–0.01	–0.60
	08/06	8.000	119.3700	5.04	+0.01	–0.01	–0.08	–1.46
Italy	05/00	8.000	102.8500	4.38	–0.03	–0.07	–0.08	–1.67
	08/02	6.250	105.8400	4.58	–0.01	–0.03	–0.11	–1.80
	07/07	6.750	112.5900	4.98	–	–0.01	–0.07	–1.87
	11/26	7.250	124.8700	5.52	–	+0.01	–0.08	–1.95
Japan	03/00	6.400	109.9600	0.53	–	+0.06	+0.13	–0.37
	12/02	4.800	116.7200	0.98	+0.04	+0.07	+0.12	–0.86
	09/06	3.000	111.4000	1.34	+0.04	+0.02	+0.07	–1.03
	09/17	3.000	113.5600	2.14	+0.03	–0.02	+0.03	–0.90
Netherlands	11/99	7.500	104.5400	4.00	–0.01	–0.07	–0.02	+0.39
	02/07	5.750	105.9200	4.75	+0.01	–0.01	–0.06	–0.78
New Zealand	02/00	8.500	98.7843	7.29	–0.01	–0.30	+0.11	+0.61
	11/06	8.000	109.8243	6.46	–	–0.22	+0.04	–0.55
Norway	01/99	9.000	102.0700	5.15	+0.06	+0.09	+0.24	+1.06
	01/07	6.750	108.3000	5.50	+0.02	+0.06	+0.01	–0.45
Portugal	03/99	8.500	102.9300	4.24	+0.04	+0.03	+0.06	–1.03
	02/07	6.625	111.1600	5.00	+0.01	–0.01	–0.01	–1.36
Spain	07/99	7.400	103.2900	4.21	+0.01	+0.03	+0.04	–0.74
	03/07	7.350	116.7900	4.93	–	–0.05	–0.07	–1.28
Sweden	01/99	11.000	103.6382	4.07	–0.01	–0.14	–0.30	–0.61
	08/07	8.000	122.2850	4.91	–0.01	–0.04	–0.14	–1.71
Switzerland	03/00	5.000	104.6700	2.16	+0.02	+0.14	+0.06	+0.72
	06/07	4.500	111.1300	3.06	–0.01	–0.02	+0.21	–0.27
UK	08/99	6.000	98.7100	7.22	+0.01	–	+0.61	+0.36
	11/04	6.750	103.4297	6.09	+0.01	–0.03	+0.27	–0.91
	12/07	7.250	109.6250	5.86	+0.02	+0.01	+0.18	–1.14
	06/21	8.000	130.0078	5.65	+0.01	+0.03	–	–1.41
US	10/99	5.625	100.0700	5.56	–0.01	+0.02	–0.01	–0.47
	11/04	7.875	112.2270	5.57	+0.01	+0.01	–0.07	–0.78
	08/07	6.125	103.8980	5.57	+0.01	–0.01	–0.10	–0.88
	08/27	6.375	109.5550	5.70	–	–0.02	–0.18	–1.04
ECU	01/00	4.000	99.7800	4.13	–0.05	–	–0.08	+0.01
	04/07	5.500	104.8800	4.80	–	–0.02	–0.11	–1.11

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	104.38	104.57	+0.05	[illegible]	104.42	–	122,378
Dec	–	104.22	+0.01	–	–	–	–

Germany

Italy

Spain

UK

US

Japan

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	–	103.56	–0.02	–	–	0	18

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

هكذا من الاصل

CURRENCIES & MONEY

Yen stabilises as pound pushes up

MARKETS REPORT

By Daniel Dombey

So bleak have the markets' expectations for Japan become that what would at other times have passed for gloomy news gave the yen a fillip yesterday. After the Bank of Japan's Tankan survey of industrial sentiment failed to meet analysts' most dire predictions, the currency bounced back from an early low of Y143.35 against the dollar to end London trading hours at Y141.6.

"The market is struggling to get a handle on things at the moment," said Paul Meggyesi at Deutsche Bank in London. "We're going to see nervous trading, probably within a range of Y138.5 to Y144 for the time being."

The yen's weakness has piled the pressure on currencies across the world, but its better fortune yesterday helped emerging and commodity-based currencies to enjoy a more tranquil day than for some time. Aided by an increase in interest rates, the South African rand clawed its way back from a new all-time low.

However, several Asian currencies continued to weaken and Russian markets remained under strain. Pakistan's stock market fell by 7.5 per cent after the country's devaluation at the week-end.

■ The yen was also boosted by the decision by Japan's ruling Liberal Democratic party to finalise plans for a "bridge bank" rather sooner than expected. The plans for the institution, which would grant new loans to corporate customers of failed banks, will now be unveiled on Thursday. Late last week, the Long Term Credit Bank, whose problems are seen as a microcosm of the difficulties of the banking sector, announced plans to merge with Sumitomo Trust, a large Japanese bank.

"It does look like the Japanese authorities are doing something about their banking system and these things are helping," said Neil MacKinnon, an independent hedge fund adviser.

"But there is a high degree of scepticism in the market about anything to do with Japan. In the meantime the yen is in no-man's land, caught between Japan's poor economic fundamentals and the authorities' readiness to intervene again."

Brian Marber, an independent technical analyst, said he expected the dollar to test the pre-intervention high of Y147.

■ Sterling jumped a pfennig to DM3.020 against the D-Mark, helped by worries about Russia, which has strong ties with German banks, and a rise in UK consumer credit during May.

But markets also took account of comments by Wim Duisenberg, the president of the European central bank, who said that it was appropriate for European interest rates to converge around low levels, since France and Germany currently had low money market rates.

Mr Duisenberg added that the French and German rates were justified by the stage of the countries' economic cycle and that countries with higher economic growth had to consider ways of slowing growth down other than monetary policy.

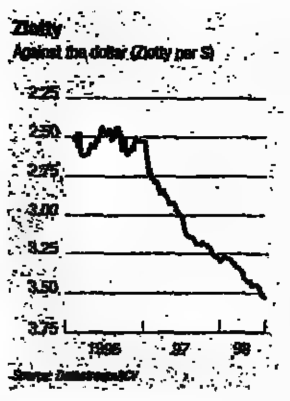
His comments were bolstered by Johann Wilhem Gaddum, vice president of the Bundesbank, who said that he expected few inflationary pressures in the euro-zone.

"The way the central bankers are talking is ignoring some of the pressure on the euro currencies and is positive for sterling and the dollar," said Tony Norfield at ABN-Amro in London. "It adds to the pound's role as a safe haven."

■ The rand dipped as low as R6.15 against the dollar yesterday, before a repo rate increase brought the currency back to the levels of late last week.

During late trading, the rand stood at R5.925. But the repo rate rise to 20.08 per cent, from 18.31 per cent on Friday, had mixed effects.

An increase in prime rates by the country's First National Bank initially brought the currency down again below R6 to the dollar. The worry is that if South Africa's banks pass on the interest rate increases, the country's already battered growth expectations will further suffer and the consensus over economic policy will come under new strains.



■ POUND IN NEW YORK

Jun 29	—Latest—	—Prev. close—
£ spot	1.6633	1.6615
1 mth	1.6627	1.6590
3 mth	1.6570	1.6530
1 yr	1.6325	1.6285

■ OTHER CURRENCIES

Jun 29	£	$
Czech Rp	55.3717 - 55.4949	33.2340 - 33.2890
Hungary	354.780 - 354.520	210.100 - 210.150
Iran	4997.10 - 4994.70	3000.00 - 3000.00
Kuwait	0.5110 - 0.5114	0.3068 - 0.3070
Peru	4.8832 - 4.8922	2.9330 - 2.9370
Poland	[illegible]	[illegible]
Russia	10.3873 - 10.3873	6.2210 - 6.2240
U.A.E.	6.1147 - 6.1183	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jun 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.2443	+0.0077	350 - 535	21.2746	21.1159	21.1734	4.0	21.0225	4.2	20.4586	3.7	103.0
Belgium	(BFr)	62.2623	+0.2186	340 - 905	62.5050	61.8230	62.0612	3.9	61.6546	4.0	59.9886	3.7	102.2
Denmark	(DKr)	11.4993	+0.037	886 - 100	11.5179	11.4374	11.4657	3.5	11.3929	3.7	[illegible]	3.5	104.8
Finland	(FM)	9.1765	+0.0297	694 - 836	9.1880	9.1250	9.1463	4.0	9.0645	[illegible]	8.839	3.7	80.7
France	(FFr)	10.1167	+0.0072	134 - 200	10.1376	10.0637	10.0824	4.1	10.0113	4.2	9.7383	3.7	105.6
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.7570	+0.0242	548 - 592	12.7780	12.7201	12.7389	2.0	12.698	2.0	12.50	1.8	103.0
Belgium	(BFr)	37.4000	+0.083	800 - 200	37.6000	37.2800	37.34	1.9	37.2145	2.0	36.73	1.8	102.4
Denmark	(DKr)	6.9058	+0.0134	805 - 100	6.9178	6.8822	6.8965	1.6	6.8773	1.6	6.798	1.6	104.4
Finland	(FM)	5.5105	+0.0107	075 - 136	5.5186	5.4927	5.5011	2.0	5.4833	2.0	5.414	1.8	80.5
France	(FFr)	6.0750	+0.0085	745 - 755	6.0929	6.0591	6.0643	2.1	6.0431	2.1	5.9624	1.8	105.4
[illegible]													

WORLD INTEREST RATES

MONEY RATES

[illegible]	

EURO CURRENCY INTEREST RATES

[illegible]	

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]	

UK INTEREST RATES

LONDON MONEY RATES

[illegible]	

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]	

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
92125	0.090			0.135		
92250	0.050	0.150	0.305	0.220	0.280	0.275
92375	0.025			0.320		

Est. vol. total, Calls 5861 Puts 1480. Previous day's open int., Calls 423074 Puts 282002

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Singer & Friedlander	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	●Smith & Williamson	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	Sun Bank	7.50
Banco Bilbao Vizcaya	7.50	●Guinness Mahon	7.50	TSB	7.50
Bank of Cyprus	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Ireland	7.50	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of India	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of Scotland	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Barclays Bank	7.50	Hongkong & Shanghai	7.50		
Brit Bk of Mid East	7.50	Investec Bank (UK) Ltd	7.50	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.50	Julian Hodge Bank	7.50		
Citibank NA	7.50	●Leopold Joseph & Sons	7.50		
Clydesdale Bank	7.50	Lloyds Bank	7.50		
The Co-operative Bank	7.50	Midland Bank	7.50		
Coutts & Co	7.50	NatWestminster	7.50		
Cyprus Popular Bank	7.50	●Rea Brothers	7.50		
Duncan Lawrie	7.50	Royal Bk of Scotland	7.50		
		Scottish Widows Bank	7.50		

COMMODITIES & AGRICULTURE

ALUMINIUM US GROUP PURSUES GROWTH STRATEGY

Alcoa may purchase stake in Egyptalum

By Kenneth Gooding, Mining Correspondent

Aluminum Company of America, the world's biggest group of its kind, yesterday showed it was still hungry for growth when it revealed it might take a stake in the state-owned Egypt Aluminium company.

The potential deal comes hard on the heels of Alcoa completing its $3.8bn takeover of Alumax, the third largest US aluminium producer, and three substantial acquisitions from European governments in three years, including the purchase in February of Inespal in Spain for $410m.

Also, although Alcoa withdrew from the bidding for Venezuela's state-owned aluminium assets two weeks ago, analysts suggest the US group would rejoin the fray if the government changed the terms.

Egyptalum has a 180,000 tonnes a year smelter at Nag-Hammadi that uses outdated technology and which it has been hoping to modernise and expand since 1994. It also has an aluminium rolling mill, completed in 1994 at a cost of $300m.

Early this year the Egyptian government sold nearly 18 per cent of Egyptalum shares to an employee union (10 per cent), investment funds (5.2 per cent) and the public (2.6 per cent).

Alcoa and Egyptalum said yesterday they would "study the feasibility of a joint venture or the purchase by Alcoa of a stake in Egyptalum's aluminium business". The initial phase was expected to take six months.

Analysts said this was in line with Alcoa's policy of buying existing assets, rather than building new capacity, and also of putting its toe gently into the water rather than diving in head-first.

It might also save the Egyptian government, under pressure from the International Monetary Fund to privatise, the expense of having an auction.

"Alcoa is always looking for acquisitions because that is a much cheaper way of adding to capacity than building new plants," said Robin Bhar, analyst at Brandeis (Brokers), the Pechiney subsidiary. "It also means that Alcoa does not add to any over-capacity.

"A deal with Egyptalum would also give Alcoa a share of the African market, which clearly has some potential.

"From Egyptalum's point of view, it would be acquired by one of the world's leading aluminium groups – and that must be good for its future."

Apart from buying Inespal from the Spanish government, Alcoa in 1996 paid $280m for Alumix, the state owned Italian group, and the same year took 100 per cent control of Alcoa-Kofem, a joint venture in Hungary.

Alcoa paid $75m in total for Kofem. The US group gave undertakings to invest substantial sums in all three acquired companies.

Poor crops lift shellac prices

By Kunal Bose in Calcutta

Poor harvests in India and Thailand have pushed up prices of shellac, the natural non-toxic resin, by 24.5 per cent to Rp89,000 ($2,070) a tonne since January.

Kunal Jayaswal, spokesman for India's Shellac Export Promotion Council, says the summer crop of lac, from which shellac is made, is down more than 50 per cent to about 7,000 tonnes.

"We are not very hopeful about the October-November crop either. We will be harvesting a small quantity of lac between the two major crops," he said.

Thailand, the other big lac growing country, is also harvesting a poor crop.

"Shellac prices would have risen further but for the poor buying of the resin by Indonesia, which is having a litany of economic troubles," said Mr Jayaswal. "Indonesia is the second biggest market for shellac after the US. We had many cancellations of orders by the Indonesia buyers and we are not expecting any improvement in Indonesian buying in the near future."

Shellac is used in wood finishing, printing ink, leather and footwear, paint, cosmetics and confectionery. India exported nearly 10,000 tonnes last year, while domestic consumption was about 2,500 tonnes.

"Export projections for the current year have gone awry because of the crop failure," said Mr Jayaswal.

Indian and Thai farmers are growing less lac because of poor returns, allowing China, Cambodia and Vietnam to sell more in the world market.

However, lac remains the principle livelihood for nearly 3m villagers in the Indian states of Bihar, Madhya, Pradesh and West Bengal, and the setback in the crop is causing rural unrest.

"The crop failure has once again brought to the fore the poor farm extension programme of government agencies and the industry. The Tribal Co-operative Marketing Federation collects a levy from the shellac exporters, but it has done little to promote lac cultivation," said a trade official.

Agricultural experts say India can lift production of lac to more than 40,000 tonnes from about 20,000 tonnes in 1997 as growing conditions there are ideal.

Curtain falls on final London tea auction

The curtain fell on the final tea auction in London yesterday, bringing to an end a 319 year-old City of London institution, writes Gary Mead.

"It's a sad event but an inevitable one, given the changing nature of the tea industry," said Mike Bunston, chairman of the International Tea Committee and a director of Wilson Smithett, one of London's two remaining tea brokers running the auction.

"Originally, tea was shipped here in bulk to be sorted, sampled and then auctioned. But today, all tea is containerised at source and is no longer at the mercy of the elements aboard a leaky ship," Mr Bunston added.

Another factor behind the auction's demise was the withdrawal of the Kenya Tea Development Authority's support last year. Drought in 1997 meant producers could not fulfil their commitments to all markets, and the auction at Mombasa, Kenya's seaport, took precedence.

Volumes have been falling at the London auction for 20 years; it handled 22.97m kg in 1996, against 95.16m kg in 1980. "We shall continue selling tea," added Mr Bunston, "only in future it will be directly, to private buyers."

Oil flat as cuts treated with caution

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Gary Mead

Crude oil prices were flat yesterday as markets continued to assess the likely impact of the latest production cuts from the Organisation of Petroleum Exporting Countries.

In late trading on London's International Petroleum Exchange Brent Blend for August delivery, the bellwether futures contract, was down just one cent from Friday's close at $13.20 a barrel.

On the New York Mercantile Exchange Brent hit an intraday low of $13.07 a barrel before recovering to $14.07 in later trading, down 6 cents on Friday's close.

The markets have greeted last week's Opec cuts with caution. Although it has taken 2.6m barrels a day out of the world oil market since March, there appears to be broad agreement that it will take some time to work off excess stocks.

The latest weekly inventory data from the US, the world's biggest oil market, was due to be published after the markets closed.

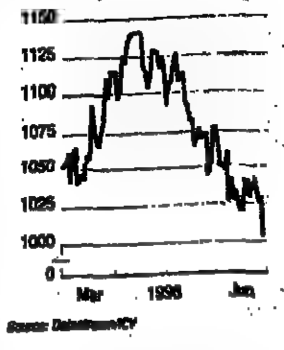
Meanwhile, Iran yesterday confirmed that it intended to cut 305,000 barrels a day early next month as part of the latest Opec reduction. Iran's commitment is seen as crucial to the credibility of the overall agreement, as it managed to avoid cutting output in the first round of reductions last March.

On the London Metal Exchange, early investment fund activity drove zinc to its lowest for 2¼ years. Some traders expected the price to fall to $980 a tonne but at $1,002 buyers moved in and the three-month price recovered to close at $1,014, down $17 a tonne.

In its new Zinc Markets Monthly publication, Metal Bulletin Research suggested the strong economic performance in key zinc consuming regions – western Europe and North America – and new galvanising capacity coming into operation, would see zinc demand outstrip supply this year.

Zinc

LME 3-month price ($ per tonne)



Source: Datastream/ICV

The strong fundamentals might be ignored in the short term, said MBR, but the price should rebound strongly towards the end of this year and should finish 1998 above $1,200 a tonne.

Coffee futures were little changed on the London International Financial Futures Exchange, the September contract closing $17 lower at $1,600, in a day of marginally better volumes – a total of 5,110 lots changed hands.

Ethiopia reported that its free-market liberalisation of the coffee sector was boosting production. It said a record 133,130 tonnes, worth $445.7m, were exported in the first 11 months of the 1997-98 fiscal year.

Cocoa traders on Liffe saw the September contract fall £24 to £1,035. September accounted for 2,901 of the 7,274 lots traded.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1282.5-3.5	1312-3
Previous	1283-84	1312-13
High/low		1315/1309
AM Official	1282-83.5	1313-13.5
Kerb close		1309-10
Open int.	287,206	
Total daily turnover	59,882	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1210-20	1200-04
Previous	1210-14	1200-03
High/low		1205/1200
AM Official	1210-20	1200-01
Kerb close		1195-205
Open int.	8,383	
Total daily turnover	4,444	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	523-4	537-8
Previous	521.5-22.5	536.5-37.5
High/low		543/532
AM Official	520-21	534-35
Kerb close		543-4
Open int.	37,747	
Total daily turnover	12,636	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4320-30	4385-95
Previous	4375-85	4440-50
High/low		4440/4390
AM Official	4335-40	4405-10
Kerb close		4380-90
Open int.	53,869	
Total daily turnover	18,[illegible]	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5750-60	5840-50
Previous	5790-800	5690-700
High/low		5650/5615
AM Official	5720-30	5620-30
Kerb close		[illegible]
Open int.	16,989	
Total daily turnover	4,715	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	988.5-9.5	1014-5
Previous	1001-02	1026-27
High/low		1027/1002
AM Official	983-84	1006-07
Kerb close		1012-4
Open int.	66,739	
Total daily turnover	38,505	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1625-6	1640.5-1.5
Previous	1623.5-24.5	1637-38

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1002	-25	1028	1001	2,110	13,405
Sep	1035	-24	1060	1034	3,004	28,904
Dec	1066	-23	1088	1066	1,213	40,166
Mar	1091	-21	1108	1090	677	37,284
May	1107	-21	1112	1111	102	13,566
Jul	1123	-21	1133	1133	26	6,262
Total					7,459	131,664

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1510	-36	1550	1500	18	83
Sep	1562	-36	1600	1556	2,881	28,228
Dec	1605	-26	1630	1600	805	20,462
Mar	1645	-22	1656	1640	174	10,737
May	1670	-20	1674	1670	21	4,322
Jul	1695	-18	1698	1698	2	1,583
Total					4,113	71,229

■ COCOA (ICCO) (SDR's/tonne)

Jun 26	Price	Prev. day
Daily	1283	1282.95

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1588	-19	1600	1581	1,422	5,061
Sep	1600	-17	1610	1591	3,252	17,887
Nov	1598	-17	1610	1600	656	8,257
Jan	1595	-12	1600	1590	15	1,216
Mar	1592	-8	1600	1590	60	860
May	1592	-3	1600	1595	11	184
Total					5,394	30,049

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	112.30	-0.80	113.00	110.50	253	636
Sep	111.70	-0.80	112.75	109.00	5,729	19,243
Dec	113.35	-1.00	114.00	111.00	1,157	8,765
Mar	115.00	-	115.25	113.25	401	3,161
May	116.50	+0.50	115.50	115.00	113	1,560
Jul	118.60	+1.25	118.60	116.10	47	909
Total					7,804	35,737

■ COFFEE (ICO) (US cents/pound)

Jun 26		Prev. day
Comp. daily	99.80	99.87
15 day average	103.07	103.74

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	260.3	+0.8	260.5	258.8	2,172	12,556
Oct	255.8	+1.8	258.0	252.5	2,070	16,017
Dec	256.0	+2.2	256.7	252.5	264	3,904
Mar	260.4	+2.9	261.9	254.0	614	5,408
May	262.4	+2.9	260.0	257.0	20	890
Aug	266.0	+3.5	261.5	261.5	-	1,036
Total					5,161	40,186

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	8.74	+0.11	8.87	8.52	14,587	15,485
Oct	9.03	+0.22	9.18	8.86	37,247	97,814
Mar	9.42	+0.19	9.55	9.04	9,488	34,262
May	9.55	+0.25	9.59	9.08	719	5,302
Jul	9.58	+0.25	9.60	9.20	370	4,215
Oct	9.61	+0.28	9.50	9.20	321	5,380
Total					63,477	167,408

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	63.075	+0.450	63.350	62.525	612	1,009
Aug	65.225	+0.800	65.425	64.675	5,135	42,982
Oct	64.775	+0.625	64.900	64.075	1,880	24,791
Dec	66.350	+0.650	66.425	65.700	691	9,159
Feb	67.825	+0.675	67.850	67.125	355	3,436
Apr	69.225	+0.575	69.250	68.675	390	1,741
Total					9,449	84,632

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	59.650	-0.500	60.400	59.600	1,718	6,119
Aug	56.625	-1.025	57.425	56.550	1,765	9,986
Oct	50.725	-0.850	51.000	50.350	690	5,916
Dec	50.500	-0.950	51.250	50.450	262	4,437
Feb	52.400	-1.500	53.500	52.200	76	1,577
Apr	52.000	-1.300	52.750	51.850	99	376
Total					4,649	28,731

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	59.700	-0.725	60.000	59.000	880	2,225
Aug	56.625	-0.150	56.900	55.150	720	2,739
Feb	53.900	-2.100	56.000	53.900	20	56
Total					1,622	5,026

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Aug	Nov	Aug	Nov
1250	66	6	66	20
1300	26	29	63	38
1350	9	61	40	66
■ COPPER (Grade A) LME	Aug	Nov	Aug	Nov
1600	144	8	169	30
1700	70	34	105	66
1800	26	86	61	118
■ COFFEE LIFFE	Sep	Nov	Sep	Nov
1600	66	94	65	96
1650	46	78	96	100
1700	35	64	133	156
■ COCOA LIFFE	Sep	Dec	Sep	Dec
1050	26	67	41	51
1075	18	56	58	64
1100	13	47	76	81
■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1300	-	-	-	-
1350	-	-	-	-
1400	-	-	-	55

LONDON SPOT MARKETS

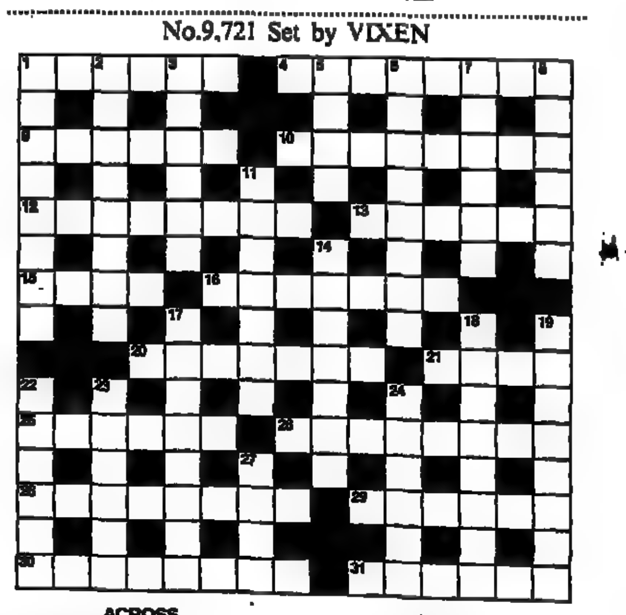
■ CRUDE OIL FOB (per barrel) +or-

		+or-
Dubai	$11.43-1.53z	-0.11
Brent Blend (dated)	$11.66-1.70	-0.61

JOTTER PAD

CROSSWORD

No.9,721 Set by VIXEN



ACROSS

1 Pole in charge – a man of high rank (6)
4 A great many shout and riot (8)
9 Recorded as inclined (6)
10 Harangue to help retired folk (8)
12 Some foreigners make a list in a break (8)
13 Ears giving the old king continental articles (6)
15 Mark requires a little time (4)
16 Heavenly body controlling the tides? (7)
20 Preserving corporal punishment – there's point in that (7)
21 Propose relocation (4)
25 Giving a punch in return is brutal (6)
26 Reconciled or separated? (8)
28 People reckoning it's all in the mind (8)
29 Ring in to vilify the series (6)
30 The odd oriental connection (8)
31 Cuts always accepted in sea-going craft (6)

DOWN

1 Taking cover, one scoffed, being calm (8)
2 An example of the popular attitude (8)
3 Ecclesiastic circle all at sixes and sevens (6)
5 Hot music grows on a person (4)
6 Communicating by means of notes and telephone (8)
7 Failed badly away from usual surroundings (6)
8 Dig out a letter – then write! (6)
11 The underworld presume on back-up (7)
14 Less kind, but showing more grit (7)
17 There's a big fall in optical deterioration (8)
18 Approach Conservative leader about the border (8)
19 Unnecessary · might be lessened (8)
22 Severely criticise a woman carrying a couple of thousand (6)
23 Memorable gesture (6)
24 The medico got out of bed in a sour mood (6)
27 Over and above what local sources can provide (4)

Solution to Saturday's prize puzzle on Saturday July 11
Solution to yesterday's prize puzzle on Monday July 13.

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Oil flat as cuts treated with caution

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Bank Von Ernst & Cie AG

[illegible]

For Banque Indosuez see Credit Agricole Indosuez

Barclays Diversified Portfolio (x)

90 avenue JF Kennedy, L-2951 352 4780 2936

[illegible]

Frontrunner I - Contd.

[illegible]

GT Global

(44 171 710 4567 London

	Init Chge	Selling Price	Buying Price	+ or -	Yield Gr's
GT Europe A		[illegible]	110.01	-1.09	0.00
GT Europe A		[illegible]	[illegible]	[illegible]	0.00
GT Europe B		$105.25		-1.10	[illegible]
GT Europe B		[illegible]		[illegible]	[illegible]
GT Investment A		[illegible]	39.86	-0.33	[illegible]
GT Investment A		[illegible]	[illegible]	-0.20	[illegible]
GT Investment B		$38.14		-0.33	[illegible]
GT Investment B		[illegible]		-0.20	[illegible]
GT US Small Cos A		$45.54	47.62	[illegible]	[illegible]
GT US Small Cos A		[illegible]	28.66	-0.02	[illegible]
GT US Small Cos B		$45.57		-0.03	[illegible]
GT US Small Cos B		[illegible]		-0.02	0.00

HSBC Investment Funds Luxembourg SA (u)

7 rue du Marche - aux - Herbes L-1728 Luxembourg

Dealing 00 352 47581? Fax 47558?

HSBC Global Investment Funds

International and Regional Funds

[illegible]

Morgan Stanley Sicav - Contd.

[illegible]

ACM Offshore Funds - Contd.

[illegible]

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

[illegible]

Merrill Lynch Asset Management - Contd.

[illegible]

UBS AG - Contd.

[illegible]

OFFSHORE INSURANCES

[illegible]

Friends Provident International

[illegible]

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Royal & Sun Alliance Int'l Financial Services

Atlantic Investment Management, Inc

Atlas Management Limited

Atlas Real Estate Hedge Fund Limited

Delta Int'l Capital Management (U.K.) Ltd

Darier Hentsch Fund Management SA

Glaxo Capital Limited

The Glenmore Property Fund Ltd

Global Asset Management

Indocam Asia

Magnum Funds - Contd.

PFPC International Ltd

PBS International

Sloane Robinson Investment Mngmt Ltd

Smith Barney Funds

Societe Generale Group

OTHER OFFSHORE FUNDS

AXA Asset Management

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

HOUSEHOLD GOODS & TEXT - Continued

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Continued

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange, but has less demanding rules than the LE Official List.

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week High	Low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS	[illegible]	[illegible]	---	[illegible]	5472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day trade-processed trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on [illegible] 'Headline Earnings' [illegible].

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discount (Dis) or premium (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♦ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below.
- †‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension

[illegible]

[illegible]	[illegible]	[illegible]
yield, p/e ratio based on	official estimates for	xd ex dividend
latest annual earnings	1998	xc ex scrip issue
u Forecast, or estimated	t Estimated annualised	xr ex rights
annualised dividend	yield, p/e based on	xa ex all
yield, p/e based on	latest annual earnings	xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998, however ShareFinder company reports, incorporating current and historic financial information, key performance data and concensus recommendations, may still be purchased by calling 0870 601 4200.

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Sluggish Footsie rise fails to match global surge

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London stubbornly refused to participate fully in what was seen as a general global market surge yesterday. Although the leaders, represented by the FTSE 100, closed higher for the fifth consecutive session, there was a marked reluctance by institutional and private investors to chase UK stocks higher.

"We had plenty of opportunities and excuses to move ahead, but the big insitutions just didn't want to play; there is much to worry the market in the next couple of weeks and fund managers want to keep their powder dry," said one marketmaker.

He noted Wall Street's strong opening, which saw the Dow Jones Industrial Average blast back through 9,000, posting a three-figure gain in the process.

Others said they expected London to catch up on any good performance by Wall Street and other markets, pointing out that the London market tends to trade sluggishly on Mondays, "especially with the World Cup and Wimbledon as counter-attractions", as one put it.

At the close, the FTSE 100 just managed to scramble back into positive ground, *helped along by a late burst* of buying interest, some of it apparently from the US.

The index closed the day 7.1 ahead at 5,884.5, after swinging in an arc of nearly 55 points during a day that began brightly but subsequently failed to follow through. Footsie recaptured the 5,900 level during its initial rally, hitting a day's best of 5,923.9.

It was a similar story across the rest of the market. The FTSE 250 index settled 1.0 off at 5,521.3, having hit a session high of 5,527.6, up 5.3, in mid-morning. That was its 13th loss in the last *14 sessions.*

Although never seen as heavily pressured, small stocks continued to struggle. The FTSE SmallCap index closing a net 1.1 off at 2,617.7.

Dealers insisted that London's reluctance to move ahead was a continuing reflection of the worries about the impact of the Asian crisis and sterling strength on earnings of the big UK manufacturers, as well as concerns about the possibility of another increase in UK interest rates.

Some dealers said there *was a real threat that rates* could be increased as early as the July 8/9 meeting of the Bank of England's monetary policy committee.

And markets have to confront a series of important global economic news items this week, including the meeting later today of the US Federal Reserve's open market committee, which determines US interest rate policy.

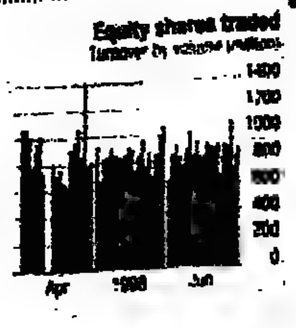
Thursday brings the June non-farm payroll report, one of the most closely scrutinised pieces of data, which always has the potential to unhinge global markets.

The day's domestic economic news on consumer credit and narrow money supply played a minor part in the day's events.

Turnover in equities reached 860.6m shares at the 6pm cut-off point, although that figure was flattered by the inclusion of 140m shares traded in Tamaris, one of the market's penny stocks. Non-Footsie stocks accounted for more than 60 per cent.

FTSE All-Share Index

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	5884.5	+7.1	FT 30	[illegible]	[illegible]
FTSE 250	5521.3	-1.0	FTSE Non Fins p/e	[illegible]	[illegible]
FTSE 350	2894.1	+2.7	FTSE 100 Fut Sep	[illegible]	[illegible]
FTSE All-Share	2764.39	+2.39	10 yr Gilt yield	[illegible]	[illegible]
FTSE All-Share yield	2.86	2.93	Long gilt/equity yld ratio	[illegible]	[illegible]

Best performing sectors

1 Electronic & Elect Equip ... +2.8
2 Engineering ... +2.1
3 Alcoholic Beverages ... +1.8
4 Tobacco ... +1.4
5 Breweries, Pubs & Rest ... +1.1

Worst performing sectors

1 Engineering Vehicles ... -2.1
2 Food Producers ... -1.8
3 Diversified Inds ... -1.2
4 Oil Integrated ... -0.9
5 Chemicals ... -0.8

Waters seen as an oasis

COMPANIES REPORT

By Peter John, Martin Brice and Joel Kibazo

The refusal of sterling to calm down saw investors hunt out stocks insensitive to currency concerns.

The largely domestic water sector splashed higher with analysts pointing out that weakness in the sector ahead of the regulatory review in the autumn has left it with one of the highest net yields in the market.

At the close of dealing on Friday, it was yielding 4.25 per cent. Only mining stocks, which have a big exposure to the Asian downturn and currencies, and the tobacco sector, which is overhung by litigation worries and contains just three stocks, offered a higher return.

Moreover, waters had the most undemanding price/earnings ratio in the market. By the end of last week, the sector was trading at 10.7 times earnings. Thames Water gained 17 to £10.81, United Utilities 14 to 863½p and *Severn Trent* 10 to £10.31.

The first heavyweight research document from the former NatWest Markets transport team, now at SG Securities, saw Railtrack, one of the market's outstanding performers, enjoy a substantial rise. The stock, which floated at 390p two years ago, was one of the best performers in the FTSE 100 as it rose 53 to £14.68.

The analysis by Mark McVicar focused on the impact of regulation on the company, with the government's white paper on transport expected within weeks. He has told clients: "Railtrack is in a strong position to win the regulatory argument, leaving the shares undervalued." Railtrack was working to establish a constructive relationship with the government, he said.

Stagecoach was one of the worst performers, as the SG Securities team said the recent deal with Virgin Rail "*increases the risk/reward* ratio". The shares fell 22 to £12.88.

A change of recommendation hit food and consumer product group Unilever. The shares fell 26 or nearly 4 per cent to 657p, the worst performer in the FTSE 100.

Goldman Sachs removed the Anglo-Dutch giant from its global priority list. "due to its significant price appreciation over the last 18 months and its premium valuation to the US food group". However the US investment bank remains positive on the stock.

Tate & Lyle also moved against the market trend, closing 10 off at 480p.

Credit Lyonnais believes the shares remain overvalued and in a recent note to clients said: "The high levels of investment and profits downturn has stretched group finances at a time when major rivals in the starch industry [ADM and Cargill] are investing heavily in growth markets."

Southern Electric was the day's top FTSE 250 performer as the only remaining independent stock in the power sector was energised by takeover speculation.

That speculation was sparked by news that PowerGen is to acquire East Midlands Electricity for £1.9bn. While that news had been widely flagged, it prompted one Sunday newspaper to pick the stock as its tip of the week.

Southern moved forward 26 to 555p while Powergen added 8¼ at 858½p.

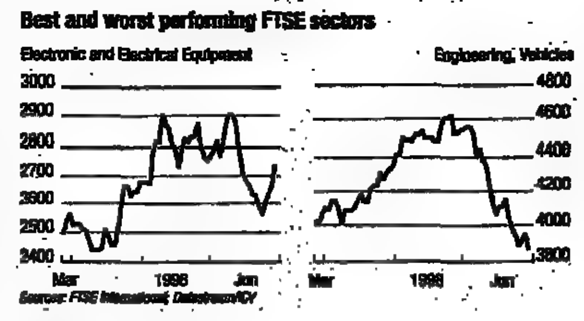
Among telecoms, Orange improved 4½ to 640½p with SBC Warburg Dillon Read continuing its upbeat presentations on the stock to institutions.

Lasmo, the oil exploration and production stock, regained some of its verve as brokers decided that it had been unfairly treated.

The shares have been dogged by cash call concerns, but there is a general feeling a rights issue is not needed, so it stands at a big discount to many analysts' net asset values and deserves to be bought.

SBC Warburg Dillon Read recommended the stock and BT Alex Brown reiterated its "buy" stance. BT Alex Brown analyst Suzy Mayne said: "This company has the best management and some of the lowest-risk exploration and appraisal upside in the sector. We categorically don't believe there will be a rights issue." HSBC Securities was also highlighting the stock on Friday. The shares ended the day 9¼ up at 244p, while rival Enterprise shed 8 to 545p.

Best and worst performing FTSE sectors



GKN looking thin

The fall in GKN was attributed to a thin order book, with attention drawn to the *stock by a trading update* released by the company during an analysts' visit to its operations in Germany.

The stock was off 14 at 781p with just over 1m shares traded. The thinness of the order book was evident at 3.45pm, when the purchase of just 16,000 shares would have pushed the shares down an extra 13p.

The company's statement, which follows the recent *sharp move* in the ICI share price as it briefed analysts, was seen as the forerunner of similar announcements as companies attempted to make information on trading more freely available.

Other engineering stocks had a mixed day as the pound strengthened further.

LucasVarity was off 9 at 233p, although British Aerospace rose on a combination of good news on an Airbus order and the old chestnut of consolidation hopes with GEC ahead of its results on Thursday. GEC was up 18 at 513p while BAe was up 40½ to 469½p.

Psion continued to enjoy investors' favour, following its recent deal with Nokia and Ericsson. The stock rose 85 to 692½p. There was speculation in the weekend press that the company was to offer a 10 per cent stake to US computer company Sun Microsystems.

Sentiment in the stock was also helped by Goldman Sachs raising its stance on the stock from "market performer" to "market outperformer", although the US investment bank edged its forecasts for figures down. It reduced its earnings per share from 14.5p to 9.6p for this year, and from 20.2p to 16.5p for next.

Plans by food retailer Tesco to expand its petrol retailing helped the shares improve 9¼ to 587½p.

Tesco which already has 14 petrol stations, plans to build a chain of more than *100 of its Tesco Express stations.*

Dealers suggested Tesco benefited from switching out of J Sainsbury, which fell 8¼ to 546p.

Among properties, MEPC gained 9½ to 530p after Merrill Lynch was said to have upgraded its recommendation to "accumulate".

FT 30 INDEX

	Jun 29	Jun 26	Jun 25	Jun 24	Jun 23	Yr ago	*High	*Low
FT 30	3816.6	3819.2	[illegible]	3797	3780.4	2985.6	3928.3	3607.2
Ord. div. yield	2.92	2.92	2.93	2.94	2.96	3.70	4.22	2.79
P/E ratio net	[illegible]	[illegible]	23.50	23.43	[illegible]	[illegible]	25.41	16.00
P/E ratio nil	23.39	23.40	23.29	23.22	[illegible]	17.76	25.19	15.71

FT 30 since compilation: high 3928.3 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3819.4	3842.6	3831.8	3824.6	3829.8	3831.1	3821.0	3826.3	3816.0	3855.3	3807.2

STOCK MARKET TRADING DATA

	Jun 29	Jun 26	Jun 25	Jun 24	Jun 23	Yr ago
SEAQ bargains	64,464	55,976	70,280	[illegible]	62,997	61,030
Equity turnover (£m)†	-	2531.1	4603.9	-	2760.2	3012.7
Equity bargains†	-	48,941	66,937	-	49,950	49,207
Shares traded (m)†	-	727.3	1100.5	-	716.9	744.4
Total market bargains‡	-	57,456	51,232	60,643	62,351	-
Total turnover (£m)‡	-	3707.5	[illegible]	4028.3	3737.1	-
Total shrs traded (m)‡	860.6	960.1	1083.6	1028.3	928.7	-
Tradepoint turnover (£m)	29.5	41.3	29.4	41.1	29.5	[illegible]
Tradepoint shrs traded	7.4	10.9	4.5	10.4	8.8	0.3

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	737	Total Highs	48	Total contracts	17,673
Total Falls	770	Total Lows	107	Calls	8,761
Same	1,478			Puts	8,912

Jun 29 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5970.0	5949.0	-1.0	5998.0	5931.0	19344	156415
Dec	6057.0	6041.0	-1.0	6057.0	6057.0	[illegible]	898
Mar		6113.0	-1.0			[illegible]	50

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Sep	5640.0	5640.0	-22.0	5640.0	5640.0	[illegible]	[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) (*5875) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on 30.06.98 / Final Prices for Trading on 02.06.98

Half-hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	9.45	14.24	13.64	1.72
0100	9.42	14.24	13.64	1.72
0130	9.42	14.24	13.64	1.72
0200	9.42	14.24	13.64	1.72
0230	9.42	14.24	13.64	1.72
0300	9.42	14.24	13.64	1.72
0330	9.42	13.95	13.35	1.72
0400	9.42	13.95	13.35	1.72
0430	9.42	13.95	13.35	1.72
0500	9.42	13.95	13.35	1.72
0530	9.40	13.11	12.51	1.72
0600	9.42	13.71	12.51	1.72
0630	9.42	13.11	12.51	1.72
0700	9.46	20.05	19.45	1.72
0730	14.70	19.66	19.06	1.72
0800	14.86	21.46	21.13	1.72
0830	16.15	22.26	22.19	1.72
0900	18.46	25.47	23.94	1.72
0930	19.67	44.70	45.63	1.72
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0118 948 6769 between 8:30am and 2:15pm Monday to Friday.

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 29	Day's chge%	Jun 26	Jun 25	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5884.5	+0.1	5877.4	5858.9	4604.6	2.78	2.30	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	5521.3	---	5522.3	5527.7	4431.3	3.02	2.59	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex IT	5568.8	-0.1	5572.4	5577.1	4434.3	3.11	2.64	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	2894.1	+0.1	2831.4	2824.7	2228.0	2.83	2.32	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

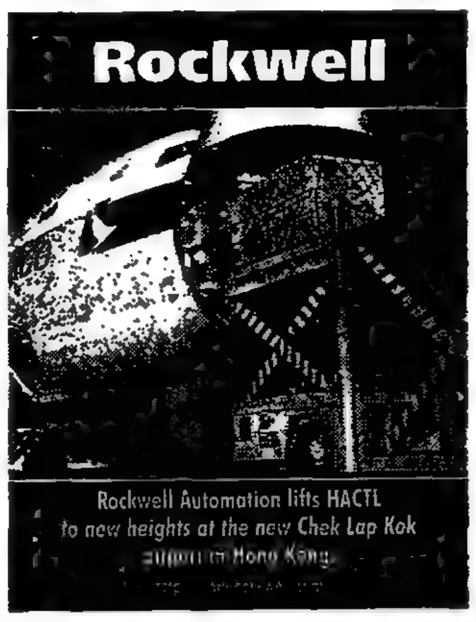
صكتاب الاهل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

[illegible]



PACIFIC

[illegible]

AMERICAS

[illegible]

AFRICA

[illegible]

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
	FRIDAY JUNE 26 1998								THURSDAY JUNE 25 1998					DOLLAR INDEX		
Australia (72)	182.48	0.4	182.65	184.53	171.68	200.47	0.6	3.95	181.60	161.24	182.20	169.59	199.32	243.87	173.27	238.59
Austria (23)	229.06	-1.7	204.22	206.68	215.54	215.38	-0.9	1.58	232.98	206.77	208.01	217.48	217.32	253.73	181.80	182.29
Belgium (23)	361.80	-1.1	322.53	326.43	340.41	332.95	-0.4	2.08	365.97	324.79	326.74	341.62	334.39	365.97	234.33	259.41
Brazil (26)	207.74	-0.5	185.20	187.44	195.46	442.01	-0.5	2.31	208.71	185.23	186.34	194.82	443.90	322.44	184.84	303.61
Canada (120)	231.27	0.1	206.17	208.65	217.60	245.90	0.3	1.84	231.01	205.02	206.25	215.64	245.25	248.78	190.10	209.24
Denmark (34)	497.53	-1.4	443.54	448.89	468.12	465.38	-0.5	1.39	504.39	447.64	450.32	470.83	468.18	521.81	375.32	387.13
Finland (26)	431.73	-0.6	384.87	389.52	406.21	498.31	0.1	1.84	434.51	385.61	387.93	405.59	497.85	451.12	267.59	296.31
France (73)	326.33	-0.5	290.92	294.43	307.04	310.54	0.2	1.99	328.05	291.14	292.89	306.23	309.82	335.75	217.48	235.40
Germany (58)	302.90	-0.8	269.75	273.01	284.71	284.71	0.0	1.17	304.95	270.64	272.26	284.66	284.66	307.24	204.89	218.75
Greece (37)	271.31	-2.6	241.87	244.79	255.28	584.36	-1.9	1.58	278.52	247.18	248.66	259.99	606.55	307.94	260.24	–
Hong Kong, China (60)	250.47	-0.8	223.29	225.98	235.67	249.19	-0.6	6.32	251.98	223.62	224.96	235.21	250.59	380.00	218.78	386.08
Indonesia (27)	27.38	-3.2	24.41	24.71	25.76	254.50	-0.2	2.76	28.28	25.10	25.25	26.40	255.00	254.90	23.58	244.09
Ireland (16)	516.66	-1.5	460.59	466.15	486.12	523.21	-0.9	1.86	525.20	466.10	468.90	490.25	528.01	580.44	350.24	350.24
Italy (54)	157.03	-1.9	139.98	141.68	147.75	209.13	-1.1	1.34	160.12	142.10	142.96	149.47	211.57	177.15	95.46	97.96
Japan (480)	86.89	-0.5	77.46	78.39	81.75	78.39	0.6	1.09	87.31	77.49	77.95	81.50	77.95	141.12	83.04	141.12
Malaysia (105)	116.20	-3.8	103.58	104.84	109.33	182.02	-1.3	3.49	120.98	107.01	107.65	112.55	184.46	513.98	113.58	507.22
Mexico (29)	1311.91	-2.8	1169.53	1183.66	1234.36	12941.59	-1.8	2.08	1347.48	1195.85	1203.02	1257.81	13178.04	1801.98	1278.19	1588.95
Netherlands (19)	510.05	-0.3	454.73	460.22	479.93	474.76	0.5	1.86	511.78	454.12	456.85	477.65	472.83	532.74	385.58	404.39
New Zealand (14)	58.39	-0.4	52.05	52.68	54.94	60.98	0.9	4.99	58.60	52.01	52.32	54.71	60.44	98.47	56.33	92.41
Norway (36)	298.78	-1.1	267.23	270.46	282.04	312.30	0.0	2.89	303.04	268.94	270.55	282.87	312.42	374.64	281.82	313.32
Philippines (22)	70.78	0.4	63.10	63.86	66.60	148.32	1.4	1.15	70.50	62.57	62.94	65.81	146.34	166.91	57.54	166.36
Portugal (18)	263.53	-0.6	234.93	237.77	247.96	334.10	0.1	1.14	265.19	235.35	236.76	247.54	333.82	299.39	261.25	–
Singapore (42)	149.57	2.2	133.34	134.95	140.73	115.90	3.2	2.62	146.37	129.90	130.68	136.60	112.31	401.75	133.81	386.90
South Africa (42)	222.81	-6.0	198.63	201.03	209.64	286.12	-1.4	3.02	237.11	210.43	211.69	221.33	290.09	364.24	222.81	363.92
Spain (31)	380.38	-0.8	339.10	343.19	357.89	442.02	-0.2	1.74	383.52	340.38	342.40	358.09	443.01	398.54	236.28	296.83
Sweden (49)	588.24	-0.7	524.40	530.73	553.47	692.61	0.4	1.89	592.22	525.58	528.73	552.81	690.14	615.21	439.98	484.82
Switzerland (30)	402.85	-0.5	359.13	363.47	379.04	380.20	0.4	1.10	404.98	359.39	361.55	378.01	378.83	414.95	285.85	317.50
Thailand (36)	12.13	-2.8	10.82	10.95	11.42	19.59	-1.9	13.59	12.48	11.07	11.14	11.65	19.98	69.09	12.13	57.64
United Kingdom (205)	383.18	-0.2	341.58	345.72	360.53	341.58	0.3	2.91	383.83	340.64	342.68	358.28	340.64	401.84	302.01	305.81
USA (631)	462.82	0.3	412.59	417.57	435.46	462.82	0.3	1.39	461.29	409.38	411.84	430.59	461.29	462.82	357.95	357.95
Americas (806)	418.47	0.3	371.26	375.76	391.86	352.35	0.3	1.41	415.25	368.52	370.73	387.61	351.27	418.85	326.79	327.83
Europe (744)	359.14	-0.6	320.16	324.03	337.91	341.87	0.1	1.98	361.28	320.63	322.55	337.24	341.57	363.89	265.25	273.86
Eurobloc (351)	103.47	-0.8	103.66	111.00	105.24	105.23	-0.1	1.62	104.33	104.05	110.75	105.28	105.31	106.98	69.54	–
Nordic (149)	511.20	-0.9	455.72	461.23	480.98	526.67	0.1	1.89	515.36	457.37	460.11	481.07	525.86	538.56	366.51	411.46
Pacific Basin (957)	93.06	-0.4	82.96	83.96	87.58	84.10	0.5	1.76	93.49	82.97	83.47	87.27	83.70	158.99	88.45	158.99
Euro-Pacific (1611)	203.98	-0.6	181.84	184.04	191.92	181.44	0.2	1.94	205.11	182.03	183.12	191.46	181.60	216.04	172.03	206.80
North America (751)	447.78	0.3	399.18	404.00	421.31	448.14	0.3	1.40	446.34	396.11	398.49	416.64	446.86	448.61	348.78	348.78
Europe Ex. UK (539)	335.19	-0.8	298.81	302.42	315.37	331.31	0.0	1.55	337.89	299.86	301.66	315.40	331.33	346.53	236.70	240.86
Europe Ex. Eurobloc (393)	98.46	-0.3	98.65	105.63	100.15	99.37	0.3	2.38	98.81	98.55	104.80	99.71	99.12	100.97	94.53	–
Europe Ex. UK Ex. Eurobloc (188)	100.49	-0.7	100.67	107.81	102.21	102.87	0.2	1.33	101.21	100.94	107.44	102.13	102.86	104.20	95.88	–
Pacific Ex. Japan (387)	154.51	-0.3	137.74	139.40	145.37	162.71	0.1	4.80	154.91	137.48	138.30	144.60	162.47	318.95	142.59	314.99
World Ex. Eurobloc (2108)	97.79	0.0	87.18	88.23	92.01	99.15	0.3	1.66	97.78	86.78	87.30	91.28	98.84	180.19	93.25	–
World Ex. US (1828)	206.13	-0.5	183.76	185.98	193.95	187.57	0.2	1.94	207.36	184.03	185.13	193.56	187.28	220.18	175.30	210.13
World Ex. UK (2254)	280.08	-0.1	249.68	252.70	263.52	259.70	0.2	1.50	280.37	248.82	250.31	261.71	259.07	287.02	234.24	252.35
World Ex. Japan (1979)	388.90	-0.1	346.70	350.89	365.92	394.33	0.2	1.72	389.18	345.39	347.46	363.28	393.50	394.39	309.33	316.71
The World Index (2459)	288.81	-0.1	257.47	260.58	271.74	267.17	0.2	1.85	288.13	256.59	258.13	269.88	266.51	286.57	241.30	256.98

Emerging markets: IFC investable indices

Dollar terms

Jun 26 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	669.31	-0.8	-20.4
Brazil	410.77	-0.5	-14.9
Chile	610.18	+1.4	-20.8
Colombia	583.66	+0.1	-31.7
Mexico	576.96	-2.3	-26.8
Peru	195.57		-11.7
Venezuela	471.77	-3.9	-48.4
East Asia			
China	37.22	-0.3	-32.7
Korea	23.75	-1.8	-1.2
Philippines	90.58	-0.3	-11.4
Taiwan, China	117.30	-1.6	-16.8
South Asia			
India	68.44	-1.2	-20.3
Indonesia	12.55	-2.8	-42.7
Malaysia	64.59	-3.8	-38.7
Pakistan	103.82	-5.3	-58.2
Sri Lanka	70.83	+1.9	-31.5
Thailand	39.88	+0.1	-15.2
Europe/Mideast/Africa			
Czech Rep	52.96	-2.8	-3.2
Egypt	77.72		-16.8
Greece	499.58	-2.9	+54.2
Hungary	310.75	-2.3	-1.3
Israel	128.91	-0.3	+4.3
Jordan	211.20		+8.4
Morocco	186.81	-0.6	+27.9
Poland	697.09	-0.5	+15.1
Portugal	281.12	-0.8	+37.9
Russia	61.44	-5.5	-60.7
S Africa	181.62	-8.3	-30.1
Slovakia	57.13	+0.9	-42.4
Turkey	264.54	-1.4	-15.2
Zimbabwe	250.08	-0.7	-8.6
Regions			
Composite	284.19	-2.1	-17.0
Latin America	529.45	-0.9	-21.9
Asia	81.82	-2.9	-24.0
EMEA	138.58	-3.2	-8.2
Europe	176.89	-1.9	-6.3
Eastn Europe	89.24	-3.3	-30.4
ME & Africa	67.21	-4.6	-6.0

[illegible]

4 pm close June 29

NEW YORK STOCK EXCHANGE PRICES

[illegible]

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

[illegible]

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jun 26	Jun 25	Jun 24	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8944.54	8935.58	8923.87	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	105.10	104.94	104.94	105.48 (16/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3417.94	3412.13	3385.69	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	290.60	288.92	290.25	293.79 (11/6)	262.66 (9/1)	293.79 (11/6/98)	16.53 (8/7/32)

DJ Ind. Day's high 9047.83 (9079.58) Low 8879.76 (8863.58) (Theoretical‡) Day's high 8991.83 (9025.01) Low 8934.08 (8915.40) (Actual‡)

Standard and Poors	Jun 26	Jun 25	Jun 24	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1133.20	1129.28	1132.88	1133.20 (26/6)	927.69 (9/1)	1133.20 (26/6/98)	[illegible] (1/6/32)
Industrials¶	1324.01	1318.81	1323.87	1324.01 (26/6)	1077.40 (9/1)	1324.01 (26/6/98)	3.52 (30/6/32)
Financial¶	136.52	136.35	136.28	140.63 (14/4)	110.65 (9/1)	140.63 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	577.53	576.14	577.16	585.82 (22/4)	487.47 (9/1)	585.82 (22/4/98)	4.84 (25/4/42)
Amex Comp	717.87	713.86	709.48	753.67 (22/4)	645.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1889.53	1863.25	1877.76	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	450.27	450.16	451.31	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

US DATA

MARKET ACTIVITY

Volume (million)	Jun 26	Jun 25	Jun 24
NYSE	520.060	663.882	714.970
Amex	20.431	26.458	32.253
NASDAQ	619.540	843.770	934.641

NYSE	Jun 26	Jun 25	Jun 24
Issues Traded	3,504	3,518	3,528
Rises	1,589	1,411	1,7191
Falls	1,359	1,572	1,253
Unchanged	556	535	556
New Highs	83	120	113
New Lows	125	128	104

NYSE TRADING ACTIVITY

Volume : 547,176,196

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
AT&T	7,483,400	58⅝	+⅛
Compaq	6,388,700	29¼	+⅜
IkonOS	5,928,000	15⅛	−6⅞
Pfizer	3,903,800	109⅜	−2
AmOnLne	3,734,400	104⅞	−2⅜
PhMorr	3,726,800	39⅛	−⅛
LucentTch	2,328,900	82⅛	+1⅞
Fst Union	3,245,800	58¼	−⅛
WalMrt	2,991,600	62⅛	+2⅝
Travlr	2,853,100	61⅛	+⅜

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
NewsCpADR	33⅛	+3⅝	+12.1
Burl Coat	22⅛	+1⅝	+8.1
TritnA	35⅝	+2⅝	+7.9
NokiaADR	74⅛	+4⅞	+6.9
Downs			
IkonOS	15⅛	−6⅞	−31.4
Cash Amer	15⅛	−4⅜	−22.6
SupDoT	34⅝	−3⅜	−9.1
Coachmen	24⅝	−2⅜	−8.8

NASDAQ TRADING ACTIVITY

Volume :583,117,176

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Micsft	16,237,000	107⅛	+3
Intel	11,216,200	73⅝	−⅛
[illegible]	[illegible]	[illegible]	[illegible]

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
YngBrdcst	53⅝	+16⅝	+34.3
HalbeBr	43	+6¾	+16.6
[illegible]	[illegible]	[illegible]	[illegible]

RATIOS

Dow Jones Ind. Div. Yield

S & P Ind. Div. yield

S & P Ind. P/E ratio

Dow Jones

FTSE Eurotop 300

June 1998

JAPAN

	Jun 29	Jun 26	Jun 25	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15365.73	15210.04	15132.22	17264.34	14664.44	38915.9	85.25

Day's high: 15424.93 Day's low: 15230.77

TOKYO TRADING ACTIVITY

Volume : 453,000,000

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
LgTmCr	45,641,000	97	+24
YsdTrB	19,210,000	112	+6
NpStl	14,585,000	236	+2
KawStl	9,633,000	241	+7
DaiwaBk	9,011,000	205	−6
YsdaSq	8,058,000	275	+15
Mitsby	6,978,000	513	+23
IshkwS	5,580,000	565	+80
SumiMtl	5,344,000	222	+7
BTokM	4,929,000	1415	+25

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
JpAltCh	189	+47	+33.1
LgTmCr	97	+24	+32.9
IshkwS	565	+80	+16.5
Promise	140	+15	+12
K'doSb	189	+19	+11.2
Toyoko	150	+13	+9.5
Nissho	514	+44	+9.4
Downs			
SumiTrB	610	−39	−5.9

FRANCE

	Jun 29	Jun 26	Jun 25	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4248.24	4215.70	4203.81	4248.24	2882.54	4248.24	984.61

Day's high: 4258.83 Day's low: 4228.15

PARIS TRADING ACTIVITY

Volume : [illegible]

ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
Usinor	1,586,340	95.1	+1.1
Rhodia	1,098,468	170.6	−3.4
RhonPA	1,076,547	346.9	+2.9
BRP	1,064,893	505	+8.1
Axa	857,415	691	+14
Alstom	841,696	202.1	−1.9
FrTele	839,861	418.9	+7.8
SuezLy	687,383	1026	−19
Alctel	572,790	1273	+8
StGobn	554,119	1163	+12

BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
UnImFr	475	+29.3	+6.6
Sefimg	444	+24.2	+5.8
UnAsFd	850	+40	+4.4
PinPr	5160	+170	+3.4
Downs			
Leroy-Smr	1562	−148	−8.7
Dxy EO	3401	−243	−6.7
CrFonF	101	−3.5	[illegible]
Llarge	617	[illegible]	−3.3

GERMANY

	Jun 29	Jun 26	Jun 25	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5915.13	5870.42	5866.63	5915.13	4087.28	5915.13	931.18

Day's high: 5921.40 Day's low: 5896.00

FRANKFURT TRADING ACTIVITY

Volume 11,177,525

ACTIVE STOCKS

BIGGEST MOVERS

UK

	Jun 29	Jun 26	Jun 25	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5884.5	5877.4	5858.9	6105.80	5068.80	6105.8	986.9

Day's high: 5923.9 Day's low: 5869.1

LONDON TRADING ACTIVITY

Volume : 880,000,000

ACTIVE STOCKS

BIGGEST MOVERS

INDEX FUTURES

WORLD MARKETS AT A GLANCE

THE NASDAQ STOCK MARKET

THE NASDAQ STOCK MARKET

AMEX PRICES

EASDAQ

STOCK MARKETS

Asian worries fail to slow Europe

WORLD OVERVIEW

The split between the developed and emerging markets was illustrated again yesterday as several European markets forged ahead to new highs, but there was more evidence of a "flight to safety", *writes Philip Coggan.*

After Pakistan became the latest country to devalue, there was further pressure on markets in South Africa, where the rand fell sharply, and in Russia, where the RTS share index dropped more than 6 per cent.

But there were no signs of trouble in Europe, where the strong dollar and an opening surge on Wall Street carried bourses in Brussels, Frankfurt, Paris and Zurich to all-time closing records. In New York, the Dow Jones Industrial Average was above 9,000 in early trading.

Europe and the US continue to benefit from a low interest rate environment, partly the result of Asia's deflationary effect.

Wim Duisenberg, president of the European Central Bank, said yesterday that European rates should converge at low levels. And the US Federal Reserve's open market committee meets today with few economists predicting a change in interest rates.

But investors seem increasingly keen to pull their money out of any country where there is a question mark over currency or growth prospects.

Alfred Ho and Sam Lau of fund managers Invesco Asia said that Japan's recession was adding cyclical pressure to the structural problems of Asia. It might accordingly take some time for Asia to reach the bottom and even after it did, growth in most countries would not return to the 6-8 per cent level.

But there was scope for a recovery if Japan reformed its banks and if most governments followed the free market solution, in spite of the short-term pain, they said.

Meanwhile, Tim Bond of Barclays Capital warned: "A growing recognition of the severity of the Asian GDP contraction is pushing governments in the direction of reflationary policies. The implication is that local currencies will weaken, independent of any yen depreciation, and that the Chinese/Hong Kong nexus becomes more prone to devaluation."

Dow rallies back above 9,000 level

AMERICAS

US shares rallied sharply in early trading, sending the Dow Jones Industrial Average back above the 9,000 level, *writes John Labate in New York.*

Analysts cited several factors for the bullish tone. "We have an 11-week correction coming to an end, and we have end-of-the-quarter window dressing," said Alfred Goldman, chief market strategist at A.G. Edwards in St Louis.

In addition, the worries about Asia appear to be back on hold as far as US investors are concerned. "The big key is Japan and nothing dramatic is going to happen until after next month's elections," Mr Goldman added.

By early afternoon the Dow had climbed 94.57 or 1.1 per cent to 9,039.31 while the broader Standard & Poor's 500 was 10.57 higher at 1,143.77.

Among Dow shares, AT&T rebounded $1 1/16 to $57 11/16 after a period of relative weakness following its announced merger plans with Tele-Communications.

Today marks the start of the Federal open market committee's two-day meeting on interest rate policy, but most analysts expect the weakness in the yen and in Asian economies will prevent any move in the short term.

US Treasuries remained tightly range bound, with most eyes still on the currency markets. By early afternoon, the benchmark 30-year bond had lost ¼ to 106¾, yielding 5.643 per cent.

Many interest rate sensitive shares moved higher early on, including major banking shares. Chase Manhattan rose $1¾ to $74¾ while BankAmerica advanced $1 1/16 to $86 13/16.

Warner-Lambert climbed $3 1/16 to $70 5/16 after an analyst recommended the stock. The same analyst recommended a switch out of Pfizer which sent the company's shares down $2 5/16 to $109¾.

Rockwell International climbed $1¼ to $49 11/16 after an analyst at PaineWebber raised the stock to a "buy".

Technology shares also advanced. The Nasdaq composite rose 20.37 or 1.09 per cent to 1,889.90.

TORONTO was higher at midsession, although activity was subdued with many investors already absent ahead of tomorrow's Canada Day holiday. The TSE-300 composite index climbed 59.34 to 7,398.00 in volume of around 24m shares.

Bank stocks were among the most actively traded with Bank of Nova Scotia up C$1.15 to C$37.25. Peerless Carpet plunged 95 cents to C$2.25 after a fire and explosion ripped through its factory in Acton Vale, Quebec.

Two firefighters were killed in an explosion at the site and several more were injured. The factory accounts for 15 per cent of the company's sales and employs 150 people. None of the Peerless workers were injured.

TransCanada PipeLines edged 15 cents higher to C$32.85 after the Calgary-based company said it had purchased 100 per cent of the shares of Occidental Netherlands, a wholly owned subsidiary of Occidental Petroleum.

Analysts noted that the transaction gave TCPL a gateway to the European mid-stream energy market.

Wall St strength lifts Frankfurt to new high

EUROPE

Wall Street's early strength provided additional impetus for FRANKFURT, sending the Xetra Dax index up 63.23 to a record close of 5,933.73.

Drugs group Merck put on DM4.20 to an all-time high of DM81.40 in the wake of a Goldman Sachs rating upgrade. The US investment bank also increased its earnings forecasts for this year and next.

Viag put in a strong performance, rising DM47 to DM1,207 after the losses sustained as a result of profit-taking last week.

Vereinsbank put on DM5.95 to DM153.45 and Hypobank was DM5.05 higher at DM115.05 as the banks said the final hurdle for their planned merger had now been cleared.

PARIS climbed to a record high, although trading volumes were modest and individual features were thin on the ground. The CAC 40 index gained 32.23 to 4,247.93.

Banks were again in demand with BNP up FFr8 at FFr504 and Société Générale adding FFr27 to FFr1,242. Valeo, a firm market lately following last week's big US acquisition, gained FFr9 to FFr647 for a three-day advance of nearly 8 per cent.

Rhône-Poulenc had a volatile session, finishing FFr1 better at FFr345 after Deutsche Morgan Grenfell put out "take profits" advice, reducing the shares from "buy" to "neutral".

The six-month results from catering leader Sodexho fell short of broker expectations and the stock ended off FFr27 at FFr1,218.

ZURICH closed at a record high, helped by strength in the financial sector, a stronger dollar and the firmer start on Wall Street. The SMI index closed 65.0 higher at 7,881.9 after peaking at an intra-day all-time high of 7,889.5.

Shares of the merged UBS made their trading debut, closing at SFr550 compared with the old UBS registered share, which finished at SFr546 last Friday.

A SFr80 rise in Bank Baer to SFr4,740 was attributed to the favourable environment for asset management specialists.

Adecco, the temporary employment group, surged SFr48 to SFr680 following a media report which reiterated upbeat comments from the chief financial officer on the outlook for sales.

AMSTERDAM saw newly streamlined telecoms leader Royal KNP shoot ahead Fl 4.60 to Fl 77.60. TNT Post, the former KNP postal operation, ended at Fl 50.10 on its first day of trading as a separate entity, 6 per cent ahead of Friday's grey market close.

KLM rose off the bottom of its 10-year trading range on a renewed outbreak of buy-back talk. The stock gained Fl 3.70 to Fl 79.30. Heineken spurted Fl 4.80 at Fl 80.

Unilever gave up Fl 2.10 at Fl 166.20 after Goldman Sachs removed the foods and detergents leader from its global priority list. At the close, the AEX index was up 15.56 at 1,197.86.

MADRID gained ground led by companies joining the Ibex index from July. The general index rose 10.82 to 890.82 helped by buying of Telepizza and Aceralia.

Telepizza, the fast food company, gained Pta100 or 6.5 per cent to Pta1,650 and Aceralia added Pta130 or 6 per cent to Pta2,295.

MILAN closed higher on last-minute buying with the Mibtel index up 307 at 22,963.

BCI rose L140 to L10,856 after reporting a 241 per cent rise in parent net profits for the first five months of the year.

Banca Fideuram rose L295 to L10,287 on speculation that the bank may be bidding for part of San Paolo, the banking network.

STOCKHOLM edged higher helped by other European bourses. The general index rose 11.56 to 3,671.56.

Securitas, the armoured car and surveillance company, rallied SKr34 or 9 per cent to SKr383 on its announcement that it had made acquisitions which would double its sales to SKr18bn.

ISTANBUL climbed 2.6 per cent, driven by the prospects for future privatisations after the completion of a tender to sell a majority state stake in Petrol Ofisi.

The IMKB National 100 index closed 105.84 higher at 4,119.92 after the tender of a 51 per cent stake in the petroleum distributor stimulated interest in other mainly state-owned stocks.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Peter Hall

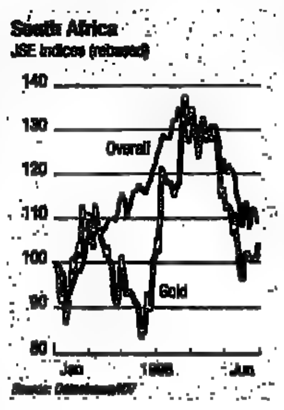
Jo'burg falls in sell spree

SOUTH AFRICA

South African shares fell steeply yesterday as investors in Johannesburg leaned heavily on the sell button as a response to the wilting rand and a surge for interest rates.

The benchmark all share index ended a volatile session off 1.5 per cent at 6,768.2 and the weakness was even more marked among industrial shares and in the financial sectors.

The industrials index came off 2.2 per cent at 8,082.9 and financials tumbled 3.8 per cent to 8,082.8. Bank prime rates jumped from 20 to 22.5 per cent as the central bank lifted its repo rate.



Although the rand appeared to stabilise in the foreign exchanges – it clawed back to R5.85 to the dollar – brokers were said to have gone home in cautious mood. The all share index is now 20 per cent short of its April peaks.

Golds provided a rare firm feature, helped by a slightly better day for the bullion price and on the argument that rand weakness improves gold export margins. The golds index rose 3.9 per cent to 836.0.

Accord, the electronics group, staged a strong debut, closing at R2.00, against a flotation price of R1.00.

EMERGING MARKET FOCUS

Karachi weaker in power fight

Pakistan's stock market fell 7.5 per cent following the weekend 4 per cent devaluation of the rupee. The KSE-100 index ended at 811.03, down 65.87.

Most analysts blamed the weak tone on the government's weekend decision to cancel a private power-generation project after accusations its owners had bribed officials under a previous regime.

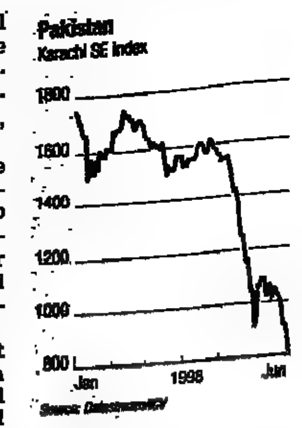
Many are worried that weeks of confrontation between the government and the power companies could eventually lead to large losses for investors in the projects and banks that have lent to them and add to the substantial pessimism among foreign businesses over investing in Pakistan.

Shares of the Hub power company, where Britain's National Power is one of the main investors, fell sharply to Rp10.25, down from Rp12.90. Shares in Southern, whose contract was cancelled on Saturday, fell to Rp1.70, down from Rp2.10.

"The power controversy has single-handedly ruined the market outlook, and it only promises to aggravate the situation further unless the government backs away," said Nasir Bukhari, chief executive of the Khadim Ali Shah Bukhari brokerage in Karachi.

The KSE's management in a rare public response criticised the government's action. A press statement issued after a meeting of its board of directors said: "...the action of the government in the ultimate analysis is detrimental to the interest of investors at large. These investors had been induced to invest in these companies on the basis of sovereign commitments."

Other analysts said growing concerns over the future of the Pakistani economy, the country's ability to meet foreign debt payments and uncertainty over the rupee in spite of the devaluation triggered yesterday's turmoil.



Iqbal Hasan, chief executive of Global securities brokerage said: "Investor confidence is totally shattered."

Some analysts said market conditions were partly driven by confusion over the future of new foreign exchange accounts Pakistanis can now open at onshore banks. Their introduction was an attempt to revive confidence after similar accounts were frozen on May 28 when Pakistan conducted its nuclear tests.

There had been fears of a run on the accounts, containing almost $11bn. Instead, Pakistan has allowed depositors to withdraw an equivalent amount to their deposits at a rate that is almost the same as yesterday's official exchange rate.

Critics, however, say that with the open market rate of the rupee almost nine per cent higher, depositors have little incentive to place fresh deposits at their banks.

"The confusion over the currency situation has added to uncertainty. Now, many say that it may be better for them to sell their shares at any price, convert on the open market and send the money outside where it would be safe," said a foreign businessman yesterday.

Farhan Bokhari

Telmex leads Mexico up

MEXICO CITY edged higher, led by its benchmark Telefonos de Mexico. The IPC index rose 22.07 or 0.5 per cent to 4,179.88.

Telmex rose 5 centavos to 20.90 pesos. The Mexican peso firmed on hopes of higher share prices, although trading in most markets remained thin during Mexico's game against Germany in the World Cup.

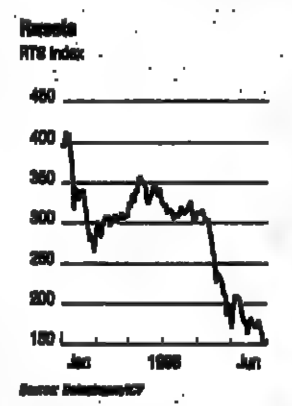
SAO PAULO firmed on cautious bargain-hunting following Friday's decline. The Bovespa index rose 60 to 9,524 while the market heavyweight Telebrás added R$1 at R$124.

Shares in local insurer HSBC Bamerindus Seguros were suspended by the São Paulo stock exchange pending an explanation of reports that it may have a new scheme to pay dividends to shareholders.

The stock exchange also announced that it was delisting shares in Banco Credito Nacional, bought last year by Brazil's largest private bank, Bradessco.

Moscow tumbles 6.1%

Signs that Russia's financial crisis was gathering pace sent MOSCOW tumbling 6.1 per cent to its lowest level since September 1996. The RTS index finished 10.02 down at 153.97 in weak turnover of $26.7m.



Dealers said shares fell early in the day in the wake of a sell-off of foreign trading debt on Friday in New York. They added that foreign investors shunned equities yesterday and stocks were steady at lower levels for most of the day.

Elsewhere in eastern Europe, TALLINN dropped 5 per cent as the central bank played down rumours that a devaluation of the kroon might be in the pipeline. The general index lost 6.89 to 131.06.

Business survey boosts Tokyo

ASIA PACIFIC

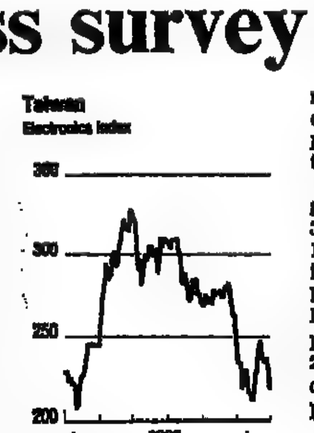
Shares in TOKYO gained ground as the latest *tankan* survey indicated that business confidence had not deteriorated as much as some analysts had feared, *Reuter reports.*

Reports of merger negotiations between Long-Term Credit Bank and Sumitomo Trust & Banking also triggered buying and the Nikkei 225 index rose 155.69 or 1 per cent to 15,365.73.

The Topix index rose 11.40 to 1,202.22, with gainers leading losers 791 to 299 and 169 issues remaining unchanged. Volume totalled 398m shares against 424m on Friday.

The release of the survey helped lift the yen, which had been weakening against the dollar, to the Y141 level. This in turn supported the stock market. Banking shares also recovered thanks to the LTCB/Sumitomo Trust news, although traders said the moves were led by short-covering rather than expectations of an overhaul of Japan's banking system.

LTCB, the most heavily traded stock, rose Y24 to Y97 followed by Yasuda Trust & Banking up Y6 to Y112.



Bank of Tokyo-Mitsubishi gained Y25 to Y1,415 and Sumitomo Bank Y8 to Y1,344.

Sumitomo Trust, however, fell Y28 to Y610 on concerns over whether the bank would only be able to take on the healthy loans of LTCB. By sector, real estate led the gainers, while railway and bus shares led the losers.

KUALA LUMPUR took further ringgit weakness in its stride, gaining 5.10 or 1.1 per cent to 450.77 on the composite index. Last Friday's reduction in the central bank statutory reserve requirement from 10 to 8 per cent plus end-of-the-month position-squaring were said to be the main supports.

MANILA responded to bargain-hunting with a rise of 36.76 or 2.1 per cent to 1,760.13 on the composite index. Blue chips were keenly sought. Metropolitan Bank rose 15 pesos to 245 pesos and Ayala Land added 25 centavos at 12 pesos. Telecoms giant PLDT gained 25 pesos to 950 pesos.

TAIPEI ended lower in thin turnover as investors continued to fret about the slowing economy. Electronics shares were heavily sold with the sector falling 4.7 per cent. Taiwan Semiconductor, which added to the sombre mood by announcing a reduction in capital spending for 1998, came off T$3.50 at T$71. The weighted index lost 146.23 at 7,535.73.

HONG KONG was taken for a rollercoaster ride, turning back from a firm opening to close sharply lower on trade related to the expiry of June futures contracts. The Hang Seng index finished 147.15 or 1.7 per cent down at 8,460.71, having pulled back from an early 8,790.55.

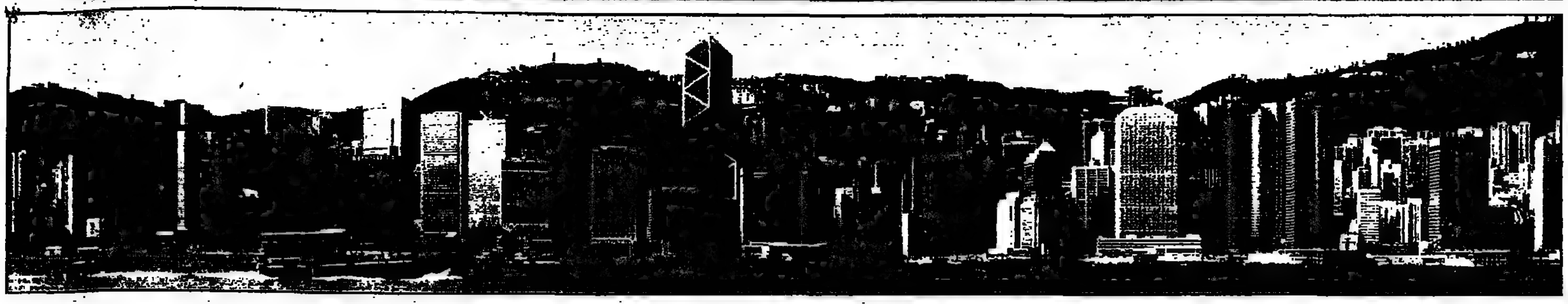
China plays tumbled on profit-taking after last week's gains. The Hang Seng China Enterprises index of H shares slid 5 per cent while the red-chip Hang Seng China-Affiliated Corporations index dropped 4.6 per cent.

The commercial and industrial sector led the market lower followed by utilities. Conglomerate Hutchison Whampoa closed 40 cents weaker at HK$40.50 after touching an intraday high of HK$42.60.

Red chip Citic Pacific lost 80 cents or 5.6 per cent to HK$13.60, while China Telecom slipped 55 cents or 4 per cent to HK$13.20.

BOMBAY closed sharply higher as sentiment improved on news that the US was again talking to India to resolve the issue of economic sanctions after the nuclear tests. The BSE-30 index closed 120.74 or 3.8 per cent higher at 3,289.56.

Foreign funds bought stocks in the pharmaceutical, software and fast-moving consumer goods sectors. Local speculative demand was stirred by hopes that Unit Trust of India would make large scale purchases to prop up the net asset values of its schemes.



Hong Kong

China has kept its word since the handover, but a surprising and sharp economic downturn threatens the territory's resilience, says **John Ridding**

Pain after the party

When the five-star flag of China was hoisted in Hong Kong last July, fears centred on Beijing's handling of its newly-acquired capitalist territory. Confidence, by contrast, was bolstered by a vibrant economy, poised to expand its role as a motor for mainland development.

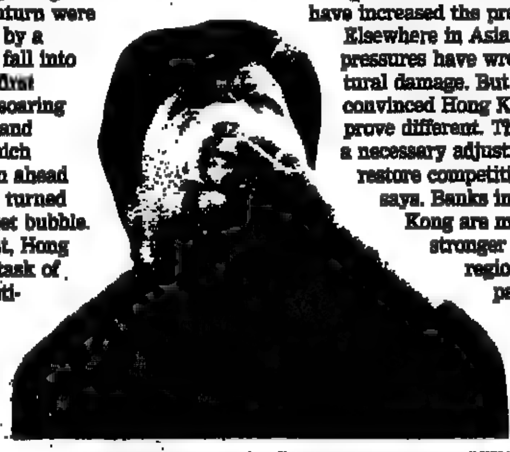
One year on, conventional wisdom has been confounded. Beijing's commitment to its promise of autonomy has defused fears south of the border. But high anxiety surrounds the economy and prospects for prosperity.

Tung Chee-hwa, the territory's post-colonial leader, emphasises the positive achievements of the first year. "The one country, two systems concept has been firmly planted in Hong Kong," he says, referring to the formula which underpins the transition.

These views are generally endorsed by the business and diplomatic community. "It has gone extremely well," says Richard Boucher, US consul general. He cites concern over some legal decisions which prompted fears of an erosion in the rule of law. "But by and large there has been a maintenance of the fundamental freedoms," he says.

Self-interest, not altruism, is Beijing's motive. Apart from attempts to entice Taiwan, the ultimate prize in reunification, a hands-off approach to Hong Kong has helped enhance China's international image. But whatever the reason, Mr Tung and his team have been left alone by Beijing as they chart a post-colonial course.

Unfortunately for the new administration, that challenge is proving far more daunting than anyone imagined. Initial hopes that Hong Kong would escape the downturn were brutally dashed by a swift and sharp fall into recession – the first since 1985. The soaring property prices and share values which fuelled optimism ahead of the handover turned out to be an asset bubble. Now it has burst, Hong Kong faces the task of restoring competitiveness and regaining its edge as a regional business centre.



"The deflationary forces at work are very powerful," says Dong Tao, senior regional economist at CSFB, drawing parallels with 1973/74. The economy is expected to contract by up to 4 per cent this year, while unemployment is likely to reach 6 or 7 per cent, almost double the current 15-year record level. Real interest rates are at their highest since 1984, tightening a severe credit crunch. Japan's tumbling yen and anxiety that China might be forced to devalue have increased the pressure.

Elsewhere in Asia, similar pressures have wrought structural damage. But Mr Tung is convinced Hong Kong will prove different. The slump is a necessary adjustment to restore competitiveness, he says. Banks in Hong Kong are much stronger than their regional counterparts, with capital adequacy ratios averaging 17 per cent. He dismisses claims that the currency peg to the US dollar, the linchpin of the financial system, can be dislodged. While pain lies ahead, says Mr Tung, Hong Kong will be the first in the region to bounce back.

But Hong Kong needs to change, not just bounce back. The old formula of controlled property supply fuelling asset price rises and wealth creation is no longer credible. New services must be introduced and financial markets improve their efficiency, if the territory is to regain momentum.

More needs to be done in education and training if Hong Kong's entrepreneurial instincts are not to founder for want of adequate skills and if the territory is to stay ahead of its regional rivals. "Shanghai poses a real opportunity for Hong Kong as an investment centre, but it also poses a real challenge", says Victor Lo, chairman of Shui On, the property developer. The growing number of multinationals establishing headquarters in China underlines the fact that Hong Kong will not thrive as a simple gateway for the mainland.

Costs are only part of this equation, but they still need to come down. The price of Hong Kong property is still higher than that of Manhattan and other regional capitals, even after the 40 per cent fall this year. A premium may be justified for a regional services hub. But if Hong Kong is to be China's Manhattan, then it must address environmental problems, skills levels and a lack of cultural attractions.

These pressures present Mr Tung and his team with a dilemma – the need to restore competitiveness through cost adjustment while preventing a collapse in confidence. It is a difficult balance, demonstrated in the reaction to last week's HK$32bn rescue package and the suspension of government land sales.

While the Hong Kong General Chamber of Commerce welcomed the attempt to halt the economy's decline, it warned that revival efforts required the support of the whole community. That is far from assured, with grumbles surfacing over perceptions that the administration is pandering to the powerful property tycoons.

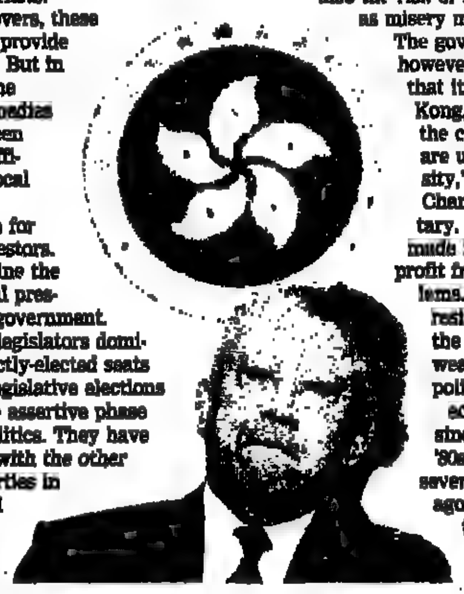
Standard & Poor's, the US credit rating agency, underlined deeper concerns that the downturn would force the government from its traditional fiscal orthodoxy, a shift which could lead to increased pressures on the peg. Others warned that any obstruction to asset price deflation, as required by the exchange rate mechanism, would add to these pressures.

The administration rejects claims it has shifted course. "We are not departing from our prudent fiscal principles," says Donald Tsang, financial secretary. He says the HK$21bn budget deficit resulting from the suspension of land sales is less than 5 per cent of the total budget. Hong Kong's government has always intervened in the property market, he argues, adding that measures to stabilise prices benefit the broad community, not just developers.

The administration also points to steps to cement Hong Kong's role as a regional business centre. The new airport which will be opened in the next few days is to be followed by other massive infrastructure schemes to aid trade with China. The establishment of a Mandatory Provident Fund, a compulsory pension scheme, and a Mortgage Corporation should deepen the territory's capital markets.

When Asia recovers, these investments will provide important assets. But in the short term, the government's remedies risk falling between two stools – insufficient to bolster local confidence, but a source of concern for international investors. They also underline the increased political pressures facing the government.

Pro-democracy legislators dominated the 20 directly-elected seats at last month's legislative elections signalling a more assertive phase in Hong Kong politics. They have banded together with the other main political parties in an unprecedented show of unity, demanding stronger action to revive the economy.



Shook of the new: an investor watches as shares drop sharply (below left); Tung Chee-hwa, chief executive, announces a $4bn package to help the territory through looming recession (below right)
Pictures. Sarah Murray (above); AP (below)

There is pressure, too, for political reforms. Martin Lee, leader of the Democratic Party, the single biggest group in the 60-seat legislature, views the results as a mandate for faster moves to democracy

The presence of vocal critics within the Legislative Council provides an important source of scrutiny in Hong Kong politics. But it requires skilful management by an administration, which has no presence in the legislature "They have to govern effectively. and not be seen to be bowing to interest groups," says one diplomat "But they must also be responsive '

Thus challenge has brought several stumbles, with legislators accusing the administration of performing a U-turn on its original plans to boost housing supply and of failing to foresee the severity of the economic downturn. Such wrangles are bound to continue as the economy deteriorates. There is also the risk of rising protests as misery mounts.

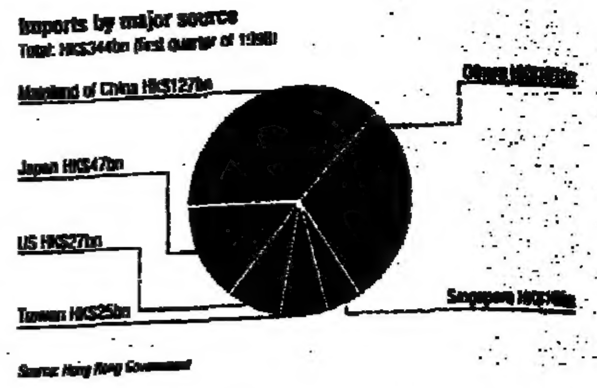
The government, however, is confident that it, and Hong Kong, can rise to the challenge. "We are used to adversity," says Anson Chan, chief secretary. "But we have made it a habit to profit from our problems." That resilience has seen the territory weather a series of political and economic storms since the early '80s. But the severity of Asia's agonies suggest that tradition now faces its biggest test.

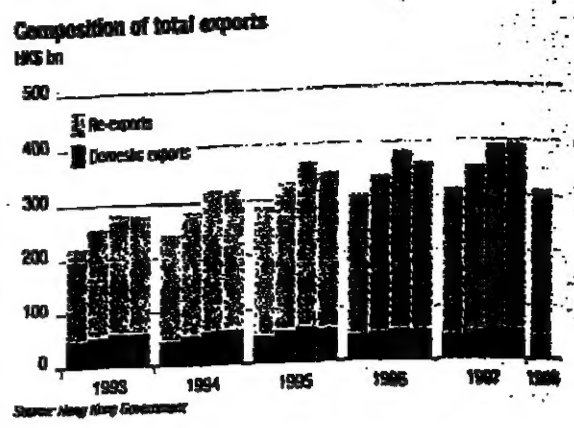
ECONOMY • by Peter Montagnon

Territory braced for a test of nerve

Events abroad will mainly determine how deep and long the downturn will be

A megaphone is used to advertise discounted goods: so far it has tended to be smaller retailers facing cash flow problems Sarah Murray





For much of last year Hong Kong seemed to have weathered the worst of the Asian economic storm: property prices turned softer after the July handover, there was evident weakness in the tourism and retail sector and there were even sporadic speculative attacks on the currency. But Hong Kong's strong banking system and its sound economic management record seemed sufficient to stand it in good stead.

Only after the government revealed last month that the economy shrank by 2 per cent in the first quarter of this year did the full extent of the damage sink in. Now the territory is bracing itself for a full-scale recession, and the questions are how deep will it be and how long will it last.

The answers are made all the harder because only some of Hong Kong's troubles are internally generated, and those that are – such as weakness in property prices and consumer spending – are mainly related to confidence. A large part of the problem relates to external factors over which the territory has no control.

Worries about Japan and the persistent slowdown in China's economy have put pressure on Hong Kong's currency peg, prompting the high real interest rates and the credit crunch from which the territory is now suffering.

The government's initial response was cautious. It offered only minor palliative measures such as extra training, limited spending on infrastructure and technical measures intended to support the property and the money markets.

But signs that the negative growth was lasting into the second quarter prompted a much more dramatic intervention last week with a temporary halt to land sales in a HK$432bn package which will lead to a budget deficit of HK$21bn.

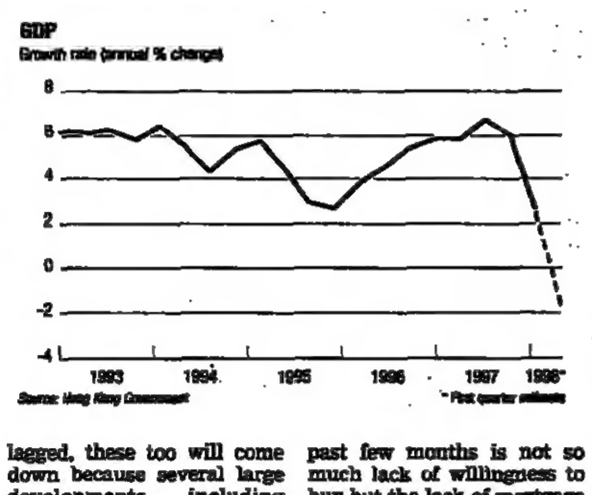
Though the deficit is manageable the volte face raises serious questions about whether Hong Kong is moving away from its traditional laisser faire economic policy. The answer is probably not – despite its tradition of non-intervention the Hong Kong government has always interfered with the property market.

But the move has left doubts about whether government will become more interventionist, or whether its close connection to business led it to choose to favour property developers over the mass of the population for whom house purchase is still inaffordable despite the sharp fall in prices.

The danger, if the latter course is true, is that the government will have interfered with the adjustment process before the bubble is properly deflated.

Residential property prices fell by about a third between last June and May this year and have fallen further since.

Commercial property prices have also fallen by about 50 per cent from their peak, and though rents have lagged, these too will come down because several large developments – including the prestigious Cheung Kong Centre on the site of the old Hilton Hotel – are due to come on the market over the next 12 months.



Prices are still above their 1996 levels, but, according to C.Y.Leung, a surveyor who is a senior adviser to chief executive Tung Chee-hwa, there is good underlying demand for residential property and the government's land sales have satisfied demand.

"Demand for housing is still very strong," he says. "The reason behind the reduction in volume in the past few months is not so much lack of willingness to buy but the lack of mortgage finance which is in turn a result of reduced liquidity."

Others are less sure. Dong Tao, regional economist at Credit Suisse First Boston, believes Hong Kong is only at the beginning of what could be a protracted and deep recession. "This is a long night, and we are only at 10pm," he says.

There are three areas of concern, he argues. The first is excessively high real interest rates. As a result of the pressure on the peg, money market rates have been going up while inflation is falling. This will add to the interest pain in the second half when real rates could reach 7 to 9 per cent.

Second, he says, is a large contraction in credit which is looming as foreign banks pull out of the Hong Kong loan market in an attempt to reduce their exposure to Asia.

Finally, the territory is about to see a sharp increase in unemployment. Already nearly 4 per cent, and the rate could rise to about 7 per cent, its worst level since the mid-1970s.

These factors could combine to produce what Mr Tao refers to as "a structural crack" over the coming months.

So far it has tended to be smaller retailers who have faced cash flow problems. Large property developers are under-geared but the squeeze is spreading into middle ranking manufacturing companies and into some smaller property developers, bankers say.

As the credit crunch intensifies even well-known companies could experience trouble. "I would not be surprised to see one or two blue-chip companies get into cash flow problems," says Mr Tao.

Much depends, however, on the external environment. If Japan takes steps to revive its economy after the forthcoming upper house elections, some of the fear that is currently stalking the exchange markets could recede, and with that, the pressure on interest rates in Hong Kong.

Similarly, a revival of economic growth in mainland China would provide a tonic for Hong Kong, while a majority of economists expect Beijing to resist pressure for a currency devaluation.

China's current account remains in surplus and its reserves are large, while devaluation would not help China's depressed inland provinces.

"Our view is that the renminbi won't go," says Clive McDonnell of the SG Group. "China's real effective exchange rate, taking account of inflation elsewhere, has not risen nearly as far as the nominal rate against other Asian currencies."

If he is right, then Hong Kong's troubles may be reasonably short-lived. If he is wrong, then much worse is in store for the territory. A renminbi devaluation would almost certainly undermine the Hong Kong peg which would devastate the economy: according to Mr Tao, GDP would shrink by 10 per cent next year if that happened.

Hong Kong will have to live off its nerves for several months while it waits to see which way things go.

INTERVIEW Donald Tsang, Hong Kong financial secretary

Principles put to the test

Donald Tsang: 'As a community we can bear the pain' Marcus Cheuk

It has been a roller-coaster ride," says Donald Tsang, describing Hong Kong's fortunes during the past year, the first under Chinese sovereignty. As with a fairground ride, the experience has been, surprising, scary and satisfying as a smooth political transition has been overshadowed by a slide into recession.

Like most others, Hong Kong's financial secretary was startled by the speed of the region's decline and the severity of its impact on the territory. "We have never seen such fast and violent swings," he says. But he is determined that despite the turmoil, Hong Kong will keep on track and emerge strengthened by its ordeal.

That is a daunting challenge. After years of rapid growth, the territory faces its first recession since 1985. Economists predict output could fall by up to 5 per cent this year, with unemployment soaring to 7 per cent, almost double the present 4 per cent, itself a 15-year record.

Speculators circle the peg to the US dollar, encouraged by the tumbling yen and China's slowing economy. At home, a new legislature appears set to prove an assertive critic of government policy, while the feel-bad factor has already fuelled attacks on the administration's handling of the slump.

Faced with this array of challenges, Mr Tsang says he, and Hong Kong, will keep their nerve. Despite a turbulent meeting with legislators pushing for tough government action, he talks of co-operation rather than confrontation. China will not devalue, he insists, while the currency peg, the linchpin of Hong Kong's financial system, remains solid.

"As a community we can bear the pain," he says, adding that the pressures elsewhere in Asia have been much more severe. "This community is doing well, relatively speaking. What we have seen is adjustment, and adjustment is necessary."

It can also be alarming. The bursting of a pre-handover asset bubble has pulled property prices down by 40 per cent since last year's peak. With the benchmark Hang Seng stockmarket index down by more than half in the same period, HK$2,300bn has been wiped off the territory's wealth, leading to a collapse in spending and rising joblessness.

Mr Tsang's main task is to achieve the adjustment needed to restore competitiveness while avoiding the collapse of confidence threatened by this mounting gloom. Add to that the scrutiny of international investors watching to see if Hong Kong veers from its non-interventionist principles and Mr Tsang's own laisser faire instincts and you have the makings of a dilemma.

Hong Kong's financial secretary dismisses the notion of intervention or government bail-outs, although he has had to accept a budget deficit this year.

"There are political realities that I have to face up to and this could mean compromises," says Mr Tsang. But he rejects claims that he has been forced from the path of fiscal prudence, arguing that the predicted deficit of HK$21bn is a fraction of accumulated reserves.

He defends measures to engineer a soft landing in the property market. "As far as I am concerned, every market should be allowed to adjust as quickly as possible but the housing market in Hong Kong is a peculiar market," he says.

Decades of controlled supply, yielding high returns for developers and the government, cannot be dismantled over night, argues Mr Tsang. "Adjustment is absolutely necessary, but the fact that we are heavily dependent on the property market means I have to be careful about the speed at which we adjust."

Japan's burst bubble and the years of recession that followed does not set a precedent for Hong Kong, says Mr Tsang, citing the scale of Japanese asset inflation and the rigidities in the market which obstructed correction. But a Japanese shadow still looms large over the territory, as the tumbling yen fuels fears about the currency peg.

While the financial secretary rejects any economic rationale for devaluation in China or an adjustment of the Hong Kong exchange rate mechanism, he has been dismayed at the reaction of the international financial community.

"The Europeans, the Americans and the Japanese have done a run on Asia, they took away liquidity from the whole region," he says.

Mr Tsang talks of an urgent need to bolster the Japanese economy. The consolidated accounts of the country's financial institutions should be published to ascertain the size of the country's funding hole, he insists. "They should print a lot of money to cover that hole and issue debt against it," he adds.

If Japan's woes have caused anxiety, Mr Tsang derives satisfaction from how China has handled post-colonial Hong Kong. "I give them almost full marks," he says. There has been no interference in economic policy, or any other form of politics, says Mr Tsang, while Beijing has allowed Hong Kong the high degree of autonomy promised in the Sino-British handover accords. As for the People's Liberation Army, a source of concern ahead of the transfer of sovereignty, he says. "They are virtually invisible."

The mainland, of course, is the relationship that matters most to Hong Kong. For Mr Tsang, continued growth in the territory's hinterland gives its services industries and manufacturers an advantage absent elsewhere in Asia. Despite the hair-raising shocks of the past year, it is why he believes the territory can rebound rapidly from its hazardous ride.

John Ridding

CURRENCY • by Peter Montagnon

The peg still fits the hole

Though under great strain, the exchange rate tie to the US dollar has held firm

Traders on the Tokyo Foreign Exchange: concern has focused on whether weakness of the yen could force China to devalue its currency, adding to pressure on the Hong Kong dollar AP

If there is a single economic benchmark by which historians will judge Hong Kong's reversion to Chinese sovereignty, it is the fate of the peg fixing the territory's dollar at HK$7.8 to the US currency. Now, thanks to the Asian economic crisis, the system is facing its greatest ever test from an unexpected quarter.

Introduced in 1983 when the Sino-British negotiations were going badly and the territory was facing massive capital flight, the peg has become a beacon of economic stability. Most people in Hong Kong agree that it has been instrumental in preserving confidence in a period of great change. Since last July's handover, maintenance of the system has become a measure of China's ability to operate the "one country-two systems" concept and absorb a vibrant capitalist economy under its sovereign wing.

Both the Chinese and Hong Kong authorities have added to the sense of the peg as a virility symbol by insisting at the highest level that it will be maintained. But, with these two economies the only ones in Asia not to have seen a substantial currency depreciation, the price of that position is growing.

In the first speculative attack on the peg last October overnight money rates shot up briefly to more than 300 per cent and three month money rose to 30 per cent. Since then there have been other spikes. Hong Kong has had to learn to live with high real interest rates, just as its own economy was contracting sharply for the first time in more than a decade.

For the custodians of Hong Kong's economy the price is still worth paying, simply because there is no choice. "People realise that the alternative scenario is a lot worse than what we are facing now," says Joseph Yam, head of the Hong Kong Monetary Authority. If Hong Kong floated its dollar, it would risk a sharp depreciation, possibly of 30 to 40 per cent, as people suddenly felt compelled to hedge. That would depress asset prices and stoke up inflation.

The lesson from other Asian countries which have devalued is that lowering the exchange rate does not lead to lower interest rates, higher financial markets and a resumption of growth. But Hong Kong is now facing an unprecedented rise in unemployment, sharply falling property prices and its stock market – in which much middle class wealth is tied up – has fallen by roughly half since last year's peak.

There is, thus, a hint of defensiveness in the arguments of top officials. "The peg has generally worked well," says Mr Yam. "But in circumstances of external shock, not everybody in the market realises how it is supposed to work." Interest rates have overshot, particularly last October, but with moves to improve transparency there is now a lot more understanding, he says.

So far the peg has not become a political issue within Hong Kong. Opposition parties in the Legislative Council have united to call on the government to take steps to revive the economy but none is calling for the peg to be abandoned. The idea is too much of a taboo to be uttered publicly.

Yet debate is growing about the level of pain Hong Kong can endure, as the government implicitly acknowledged with its measures to halt land sales last week.

One fear is that unemployment will lead to pressure on the government to alter its policy or that a general loss of confidence in the banking system could knock the peg away. Another is that the weakness of the yen and weak internal demand will force China to devalue its currency. That would almost certainly sweep the Hong Kong dollar under but, for the time being, the consensus in the financial community is that this is unlikely.

Most bankers believe the peg will hold, but many also believe the authorities will look for an alternative arrangement once the crisis abates and stability returns to the markets.

Besides, the peg is doing exactly what it is supposed to in forcing adjustment. If Hong Kong's problem before the handover was high property prices and wages, making it uncompetitive. But thanks to the pressures induced by the peg, a considerable correction has already occurred.

One of the peg's advantages is that the rigid correlation between the territory's foreign exchange reserves and its money supply does not allow the government to run large fiscal deficits over a long period or the HKMA to steer interest rates lower by injecting fresh liquidity.

Part of the attraction of maintaining the peg is that it forces Hong Kong to stay nimble and limits government intervention in the economy. That in turn reinforces Hong Kong's traditional brand of laisser faire capitalism and helps maintain the distinction between the two economic systems existing within China.

Without the peg that distinction could start to erode, especially if economic management in Hong Kong became more politically motivated. Despite the present pain, the long-run price of yielding to pressure to abandon the arrangement could be high for China, as well as for Hong Kong.

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A new
identity
emerges

e peg still
the hole

POLITICS • by John Ridding

Still under scrutiny

The promise of autonomy has been kept so far, but democracy faces further tests

Defending their rights: two elderly women leave a polling station after casting their votes in last month's legislative elections AP

Amid the misery of recession and an unsettling series of *health scares, one of the few* pleasant surprises of the post-handover period has been the smooth start to the "one country, two systems" formula. Beijing's hand has seldom been detectable in the affairs of its new territory. Its promise of autonomy for Hong Kong has so far been kept.

But if the framework of the transition has been solid, *there have been tests and* transformations within the "one system" that is Hong Kong. Last month's legislative elections heralded an assertive check on the post-colonial administration, while occasional controversies have erupted over the rule of law and press freedom.

A common message to the new administration and to the territory's new sovereign has been the determination of Hong Kongers to defend their rights and to push for increased political participation. That message was underlined in May's elections *which brought a record* turnout of 53 per cent, despite complex voting rules and torrential rain.

Hong Kong's assertiveness was also underlined by the strong reaction to perceived threats to the rule of law and the freedom of speech.

These included a robust reaction to criticism of the government broadcaster by a delegate to China's National People's Congress and an equally strong debate over whether new laws provide *privilege to mainland institutions*, such as the Xinhua news agency. It was also apparent in a turnout of tens of thousands at a commemoration this month *for victims* of the 1989 pro-democracy crackdown in Beijing.

The pro-democracy parties, which won 14 of the 20 directly-elected seats in the legislative poll, and more than 60 per cent of the vote, viewed the result as a clear sign of support for greater democracy.

"This is a mandate, and we will do our best to push for full democracy in the *next elections in 2000 and for* a democratically elected chief executive," said Martin Lee, leader of the Democratic Party, the single biggest group in the 60-seat chamber.

The administration sees it *differently*. Tung Chee-hwa, the chief executive, applauded the high turnout. But he viewed it as an endorsement of the electoral arrangements and Hong Kongers' expression of their civil rights after the end of colonial rule.

He sees no need to accelerate the process of political development laid down in the Basic Law, the territory's post-colonial constitution which allows for a decision on a fully directly-*elected legislature in 2007*. "We are moving forward in a very steady, very prudent manner," says Mr Tung.

In practice, the course of local politics may prove a lot less steady than Mr Tung wants. *Michael DeGolyer*, head of the transition project at Baptist University, warns that resentment could build against the traditional business elite if populist views are not heard.

"You will have a *situation* where 25,000 people are stopping the will of 2.8m voters. That is an inherently destabilising situation," he says, *referring to the respective* franchises for the indirectly-elected 40 seats of the legislature and the 20 directly-elected seats.

While the directly-elected contests were dominated by pro-democracy and populist parties, *the functional constituencies* were dominated by pro-China and pro-business interests.

Professor DeGolyer does not expect Hong Kongers to take to the streets to voice dissatisfaction with the *pace of political change*. But the government is set to face a much tougher time in the legislature and in implementing its policies.

Quite apart from the return of critics to the chamber, there is growing public *anxiety over the depressed* economy. This has hit the popularity of the administration, strengthening the hand of its critics. Any doubts about the challenges ahead were removed within days of *the election*, when seven political parties overcame traditional divisions to demand strong economic measures from the government in an attempt to counter recession.

The combination of economic gloom and a feisty legislature adds up to a formidable challenge for Mr Tung and his team. On the economy, the administration is caught between the need to bolster confidence while avoiding interventionist measures which could frighten off foreign investors.

It must take account of the *election results as it plans* preparations for the next poll. *It must also consider if* and how to change the franchises for the constituencies and how to prepare political *institutions* – such as the development of a ruling party – for the day when a *fully-elected legislature* takes office.

More immediately, it must tread carefully with politically sensitive legislation, in particular the anti-subversion laws required by Article *23 of the Basic Law*.

Article 23 will prove to be an important benchmark for civil liberties in post-colonial Hong Kong. Pro-democracy parties fear draconian definitions of subversion and sedition will be introduced, providing a means to suppress civil rights and freedoms in the territory.

Until now, these fears have proved unfounded. Despite continued concerns over the rule of law – where the ability of a pro-democracy politician to prosecute the Xinhua news agency will provide a test case – Hong Kong's way of life remains largely unaffected by the transition.

Perhaps the clearest illustration came at this month's commemoration of the Tiananmen Square massacre in Beijing, where a crowd of *some 30,000 gathered in* downtown Victoria Park, *and Wang Dan*, one of the leaders of the 1989 protests on the mainland, addressed the throng through a live telephone hook-up.

"The fact that there continues to be demonstrations *on all kinds of things under*lines the fact there is no change in the rights and freedoms enjoyed by Hong Kong people," says Anson Chan, chief secretary and head of the civil service.

*So far, it is hard to dis*agree. The handling of the handover by Beijing and Hong Kong provides cause for encouragement. So, too, do the signs of assertiveness on the part of the territory's public. But these are early days under the "one country, two systems" strategy, and there will be plenty of tests to come.

CROSS-BORDER FINANCIAL LINKS • by Peter Montagnon

Mainland motor stuck in neutral

The impact of the regional crisis has prompted a cyclical slowdown in fund flows

During the feverish excitement of last year's handover, one point stood out for Hong Kong's business community. The transfer of sovereignty seemed to *set the seal on the territo*ry's future as a provider of *finance and services* to the mainland. Economic interdependence should grow and become a source of prosperity to Hong Kong as China's own economy advanced.

Twelve months on, such optimism looks misplaced. Last year Chinese companies raised HK$110bn in the Hong Kong equity market. *This year the flow of new* issues has dwindled to a trickle. *Contrary to expecta*tions, Hong Kong's role as *China's banker has dimin*ished, says Andy Xie of Morgan Stanley.

Yet, much of this is the result of cyclical factors. *Strip away that impact and* the underlying trend is still *towards deeper interdepen*dence, local analysts say.

Nearly half the *foreign* investment entering China is channelled through Hong Kong; more than half its trade still passes through Hong Kong despite new, and sometimes cheaper, ports on *the mainland*. The many Chinese and China-related companies quoted in Hong Kong have transformed the territory's stock market in recent years. It is now more reflective of China, and less *dominated by local banks* and property companies.

Bereft of opportunities elsewhere in the region, Hong Kong companies are pushing into China, especially in infrastructure and *housing. Investment bank*ers say they expect China to be a large source of business over the medium term. "China needs capital, and Hong Kong is best-placed to provide it," says Richard Orders, head of corporate finance at ABN Amro Asia.

The market's China orientation should grow further following this month's announcement that it plans to attract 250 new China-related listings over the next five years and establish a developed set of derivative and debt products.

But for the present, the *benefits could continue to* be squeezed. With share prices depressed in Hong Kong, it makes sense for Chinese companies to raise funds in their domestic market which is trading on a much higher multiple. Lower interest rates in China also make renminbi debt more attractive. Even some Hong Kong companies, such as New World Infrastructure, *want to finance projects* locally, partly as a hedge against any change in currency rates.

This more sober environment has given some in the Hong Kong business community pause for thought about the territory's own longer term competitiveness. "We have to come up *with new ideas that will* cater for China's long-term funding needs, and we have to corner the trading of China concept shares," says Victor Chu of First Eastern Investment Group.

Mr Chu believes that Hong Kong should seek to become the pre-eminent trader of B-shares (issued in China for purchase by foreign investors), starting with the issues listed on the nearby mainland exchange in Shenzhen. This would *give the territory more clout* in improving Chinese corporate governance and disclosure, he says. It would also provide an edge in any rivalry with Shanghai.

One fear is that Hong *Kong may lose ground to* Shanghai which also has ambitions to be China's financial centre. But at present the risks are slim because Shanghai's development is constrained by the renminbi's lack of convertibility on capital account – something the regional crisis has pushed further into the future.

Others argue that Hong Kong needs to do more to position itself in the bond market – likely to become an increasingly important source of finance for Chinese companies, especially *those involved in infrastruc*ture. Hong Kong has already *taken steps* to develop regional clearing and settlement systems for bond trades. It would benefit from the development of a deeper bond market, says Aliza Knox of Boston Consulting Group. "That may give Hong Kong a sustainable position as other centres come along."

The more urgent question remains how to revive the new issue market for equities. The mood might improve if China issued more exciting growth stocks, says Huan Guocan, co-head of Asia-Pacific investment banking at Salamon Smith Barney. Despite talk of regional authorities *such as the Liaoning* provincial government listing their utility businesses in Hong Kong, Mr Huan believes the market wants more growth-oriented opportunities.

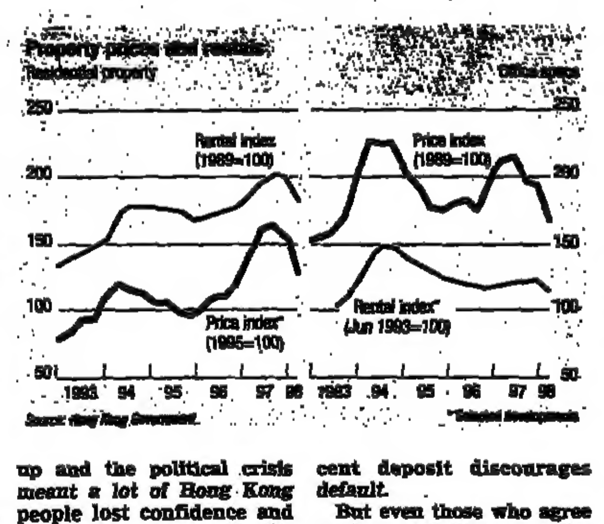
"Investors are still looking for quality companies with good stories. A way to improve market sentiment is to select five to 10 top-quality companies and let them come to Hong Kong," he says.

Mr Orders sees a need for companies with strong cash-*flow, a sensible strategy* and a high quality of management. Companies can no longer sell on the expectation of asset appreciation or simply on China connections, he says. China may *still be the key to Hong* Kong's future, but a new sense of realism has set in with the events of the past 12 months.

PROPERTY MARKET • by Louise Lucas

Shaken foundations

In spite of government action the decline in prices may not yet be over



Hong Kong's famed skyline is *worth some 40 per cent* less than it was last summer – and *ramifications ripple far* beyond the harbour.

The government, which this month called a nine-month moratorium on land sales *to* help reduce supply, will this year suffer its first budget deficit in *a decade as* a result.

While the government acted to draw a line under falling property prices, and help restore confidence and stimulate the economy, the *move* has also attracted criticism. Critics of the government's action *point out that* it bails out the property developers who *had called* for the moratorium, without addressing the issue of oversupply.

It is a sensitive issue. Property is a pillar of the economy, accounting for an *estimated 40 per cent* of GDP and total credit. Years of *spiralling prices* have helped fuel consumer spending and supplied a *steady* stream of business for the banking sector.

When the asset bubble burst towards the end of last year, the shock was palpable. Furious home-owners *marched* to the government offices demanding redress.

Compounding the fall in prices – a consequence of *maintaining the currency* peg and the resultant high interest rates – *is a growing* supply of new office and retail blocks. The government's resolution to have 85,000 new homes a year, now partially scuppered by the June measures, had been adding to oversupply concerns.

"This *market* is almost as bad as the early 1980s, when the issue of Hong Kong's post-handover future came up and the political crisis *meant a lot of Hong Kong* people lost confidence and sold their properties," says Shih Wing-ching, managing director of Centaline Property, Hong Kong's biggest domestic estate agency. In 1982 and 1983, prices fell by 40 to 50 per cent.

Some believe the latest measures will be sufficient to effect a turnround. *Franklin Lam*, property analyst at SBC Warburg Dillon Read and a harsh critic of the 85,000 flats a year programme, expects a boom in property transactions to follow.

"People were previously *afraid to buy homes because* they did not know where the *government* wanted prices to be," he says. "That really broke Hong *Kong's back*. The signal now is, 'don't worry, we are here and prices are where we want them to be'."

Others say the government was forced to act to fend off any impact on the banking system. Banks' loans books are heavily tilted towards the property sector, and any hint of weakness within the banking *system* would have rocked confidence at home and *abroad*.

On the other hand some bankers *and analysts point* out that only those who bought property *in the past* year have seen values decline and that the 30 per cent deposit discourages *default*.

But even those who agree that special times require special measures harbour concerns that they may have exacted a toll on government credibility, specifically by causing it to stray from its avowedly non-interventionist policy and to side with the developers.

Only hours before Mr Tung unveiled his measures Lee *Shau-kee*, chairman of Henderson Land Development and one of the territory's richest tycoons, was advocating that the same be done.

Confidence would return to the market, he said, "if the government stops its land sale programme now".

Developers like Henderson *grew rich on* a cocktail of negative interest rates and *limited land* supply. (And they are still reckoned to be making profit margins of some 30 per cent.)

Contrary to Hong Kong's laisser faire reputation, the developers have always had considerable muscle. "The property cartel is healthier and more active than people think," says Paul Shulte, regional strategist (Asia) at ING Barings.

In 1994, the last time the government tried to intervene in the property market – by introducing anti-speculative *measures to temper* spiralling prices – it found itself facing *a silent hall* at the next land auction.

Another auction served to drive the message home. The big developers bid together rather than against each other, thus achieving a sharply lower sum for the government coffers.

Martin Tacon, vice-president Asian equity research, says the move towards *greater government inter*vention began in 1994, when *Chris Patten*, the then-governor, imposed anti-speculative measures in a bid to try to temper the spiralling prices.

"Since the new administration there's been a much *more hands-on approach*, right down to the terms of annual supply of units, which before was left to market forces.

"US investors are concerned that we are seeing Hong Kong becoming more like the Singaporean model, because Mr Tung is more in favour of public housing."

In addition to the public sector houses, work cannot simply be stopped on ongoing private projects, which are predominantly high rise blocks.

As a result, says Mr Tacon, there will still be 18,500 private units a year coming on to the market this year and next.

Smaller developers could, therefore, find themselves forced to dump projects at very low prices simply to *realise* the cash.

The credit squeeze in *Hong Kong* means that even blue chips are finding it hard to raise loans while less highly ranked companies are finding that the only way they can generate cash is through sales.

Thus, and despite the best endeavours of Mr Tung and his administration, the decline in property prices may not be over yet. "Developers have been crying out *for them to do something* like this for months and many would argue they reacted far too late anyway," says Mr Tacon.

BANKING • by Peter Montagnon

Weathering the storm

Sound regulation has helped the sector to deal with the region's economic turmoil

One of the distinctions between Hong Kong and other Asian economies caught up in financial crisis is the strength of its banking system. Because Hong Kong has long maintained a rigid currency board system fixing its dollar to the US unit, its banks have become used to dealing with the violent swings in the economic cycle such an arrangement brings.

Local institutions thus maintain a high standard of disclosure and transparency as well as high liquidity and capital ratios. Average risk-weighted capital at the end of December was over 17 per cent – a strong position from which to confront the present turmoil. "As of now I'm not worried about the financial position of any bank in Hong Kong," says David Carse, deputy chief executive of the Hong Kong Monetary Authority (HKMA).

Yet, life for Hong Kong's banks has become more difficult as property prices have fallen and foreign banks *have scaled back their lending* in the territory. Liquidity is tight, banks are having to bid up for Hong Kong dollar deposits, which is squeezing margins, and a credit crunch is putting otherwise sound middle-ranking corporations under pressure.

How bad the problems become depends on property prices. Rising unemployment could also produce large-scale defaults on mortgage payments. If this prompted worries about the health of individual banks and a general loss in confidence, Hong Kong could still face a crisis which would be difficult to contain.

For now, however, the prospect seems remote. "The banks here have been increasingly well-regulated. The banking commissioner and the banks themselves learned from the problems of the early 1980s when we did have bank failures," says Alan Smith , Pacific region vice-chairman of Credit Suisse First Boston.

A recent survey by the HKMA gave the industry a relatively clean bill of health. All local banks were profitable during the first quarter, it said, though earnings were lower because of lower net interest margins, shrinking lending volumes and an increased bad debt charge.

In aggregate, overdue and rescheduled loans rose only modestly from 1.8 per cent of total lending at end December to 2.19 per cent at the end of March, while mortgage delinquencies remained negligible at 0.34 per cent of the book. Overall, the HKMA added, problem loans are still low by international standards.

This largely reflects the role played by mortgage lending. Calculations by *Morgan Stanley, show* mortgages account for about half the loan book at Bank of East Asia and First Pacific Bank and a third of the local loan book of HSBC and its Hang Seng Bank subsidiary. The industry average is 23.6 per cent.

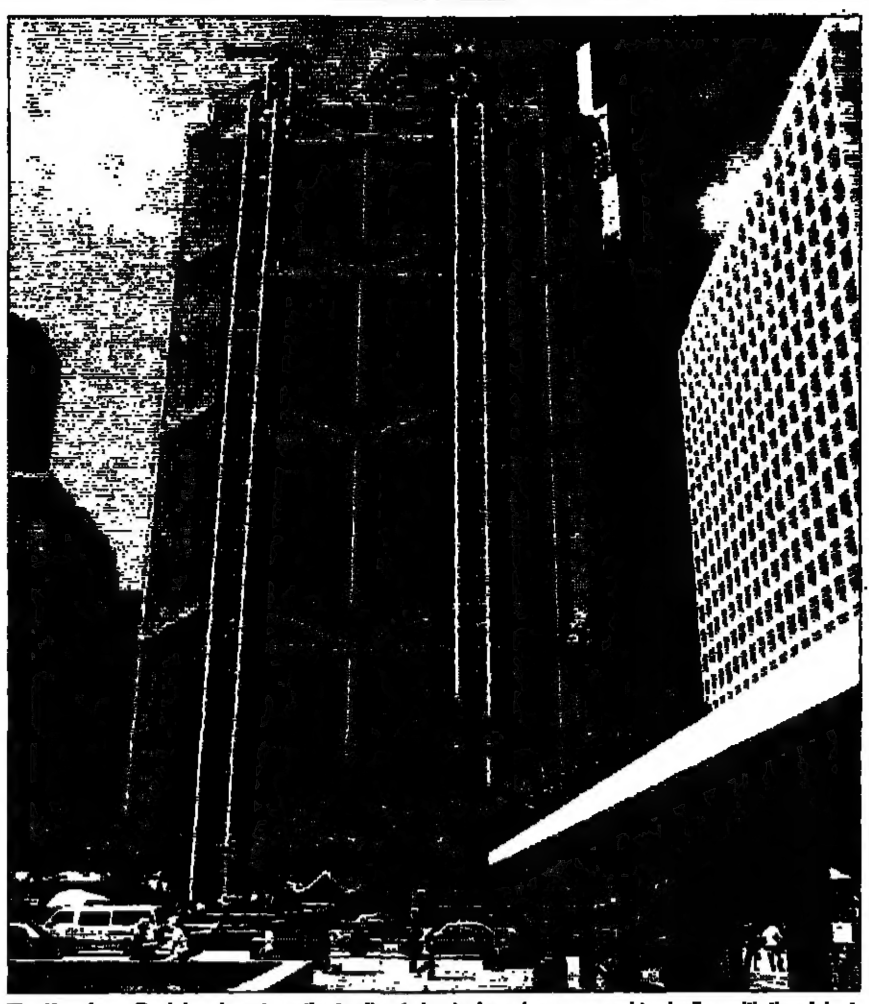
Banks are much less heavily exposed to the property developers who are taking larger risks on commercial developments. The largest of these – Cheung Kong, Sun Hung Kai, and Henderson Land – are in any case under-geared, so there are few loans for the banks to worry about.

"Property companies are in a very strong financial situation," says Michael Green of Salomon Smith Barney. "When the crisis occurred average gearing was 17 per cent. That won't come down by much because of the fall in underlying property values but the companies are continuing to pay down debt at the same rate, so net debt has declined."

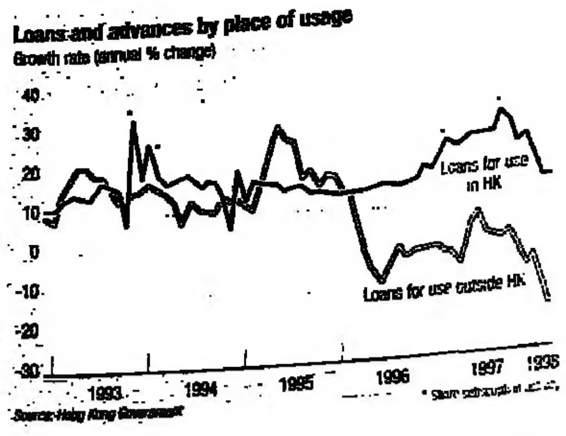
Thus far bad debt problems have been concentrated in corporate lending and in trade finance. Provided residential property prices do not fall too much further, analysts believe the mortgage book will give banks a cushion. Since the authorities impose a strict 70 per cent loan to valuation ratio on mortgage lending, and since individuals are generally reluctant to default on their home loans even when they are in negative equity, the chances of serious losses on mortgage lending look relatively slim.

Estimates by some brokers that non-performing loans could rise to about 8 per cent of the loan book by the end of the year suggest the situation is manageable given the banks' high capital ratios, *adds Mr Carse. A positive* factor is that Hong Kong companies have better finances than many in the region, with less heavy gearing and less strain in terms of interest rate, cover.

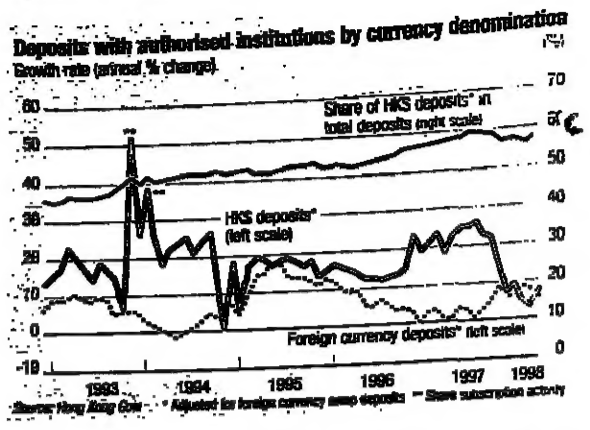
In contrast, the greater risk of unanticipated shocks is on the deposit side, says Aliza Knox of Boston Consulting Group. Renewed fears about the Hong Kong dollar caused, for example, by the fall of the yen, could cause another interest rates rise, putting further pressure on liquidity.



The Hongkong Bank headquarters: the territory's banks have become used to dealing with the violent swings in the economic cycle that are the price of a currency pegged to the dollar Sarah Murray



Source: Hong Kong Government



Source: Hong Kong Govt * Adjusted for foreign currency swap deposits ** Share subscription activity

Growth in deposits was sluggish at just 1.8 per cent in the first quarter, and competition for deposits was intense. According to the HKMA banks want to *improve their loan-to-deposit* ratios and build up liquid assets. The interbank market is not a reliable source of liquidity and the new issue market for certificates of deposit is largely closed.

This is one reason for the slowdown in lending – local loan growth rose by 0.8 per cent in the first quarter. Another problem is that Japanese and European banks – large lenders to the corporate sector – are reining in their activity as part of a general attempt to reduce their exposure to Asia.

"There's a gap that needs to be filled as Japanese and some of the Europeans depart, but there's not actually room in the Hong Kong banks – or even a willing*ness – to fill it," says John* Hobson of Morgan Stanley.

The authorities have sought to mitigate the problem by announcing new repurchase arrangements to spread liquidity through the interbank market and by *streamlining mortgage* securitisation, but some senior bankers admit privately that there is a risk of a vicious circle, with the credit crunch creating corporate problems which would feed back into confidence in the banking system.

So far there has been no sign of a migration of bank deposits out of Hong Kong dollars and into US currency at foreign banks but that could happen if the overall banking environment worsened. *While the authorities* may have good reason to claim there is no need for things to get that bad they must also hope the situation does not deteriorate.

While the currency board arrangement allows them to divert available liquidity to banks in trouble, it would not permit generalised provision of additional liquidity to the system as a whole. Hong Kong's banks may be mo[illegible] prudent than many in Asia, but they are also living in world without an unlimited lender of last resort.

The departures concourse, designed by Foster and Partners: the airport's role as an economic booster is now being questioned John Nye

INFRASTRUCTURE • by Louise Lucas

A wing and prayer

After construction of the airport, a new burst of building is getting under way

Unlike its Asian neighbours, many of whose grandiose infrastructure plans have been mothballed by the financial crisis, Hong Kong is endeavouring to build its way out of recession.

Bricks, mortar and intricate engineering blueprints have been marshalled as weapons against downturns in the past. The fruits of the last big infrastructure effort will be revealed this week when Jiang Zemin, China's president, and a 500-person long dragon officially open the new airport on Lantau island.

Take-off has been tardy. Initial plans to launch a then HK$5bn airport in 1974 were abandoned for cost reasons but reactivated as a morale booster months after the Tiananmen Square massacre in June 1989.

Confidence – and dollars – evaporated in Hong Kong after tanks rolled over pro-democracy protesters in Beijing's Tiananmen Square, giving the territory an insight into the tolerance levels of its new master. Plans for the HK$155bn airport and railway were back on the agenda.

The airport never quite fulfilled its role as panacea, and instead became a new source of friction between Britain and an increasingly suspicious China. China was worried that UK contractors would clean up and it would be left with a mountain of debt.

The subsequent rows over financing delayed progress and ensured that Britain's last governor did not, as had been anticipated, fly out from Chek Lap Kok.

It also failed to realise its role as a trophy project. In July 1991 when John Major, the then UK prime minister, was coerced by Chinese leaders into setting foot on mainland soil to sign the agreement (becoming the first main overseas leader to do so post-Tiananmen Square) the over-riding emotion was embarrasment rather than pride.

And finally, as take-off approaches, Chek Lap Kok's economic booster role has been thrown into question. Airlines, reeling from the impact of the Asian regional crisis and subsequent downturn in tourism, fought loudly against the proposed charges at the new airport and the resultant compromise – a real rise of about 20 per cent on the existing Kai Tak – failed to stifle all criticism.

Moreover, the move to the new airport – where capacity is initially 16 per cent higher than at Kai Tak – is coming at a time when some carriers are cutting routes. Some will put on additional flights, including the territory's own carriers, Cathay Pacific and Dragon Air, but with plummeting yields and loads, analysts question how profitable, if at all, these will be.

Despite the growth of modern airports in Hong Kong's immediate environs, notably China and the under-used facility at Macau, Hong Kong is still setting great store by its airport.

"It's opening up a whole new area of opportunity for Hong Kong to sustain its future growth," says Henry Townsend, chief executive officer of the Airport Authority. This includes air cargo and hubbing opportunities to capitalise on mainland connections.

Kai Tak, he says, capped growth: it is running at full capacity and the dense residential area minutes from the runway means a noise curfew has to operate, ruling out night time arrivals and departures. By contrast, the new airport will initially host 35m passengers a year and this will grow after the second runway is completed in November.

As work winds up on the first phase, the government is already pursuing its next, HK$235bn five-year infrastructure programme. This is to include extensive roads and bridges, tunnel and railways, and even – testament to Hong Kong's desire to remain at the leading edge of technology – a science park.

Unveiling the infrastructure programme in his policy address last October, Tung Chee-hwa, chief executive, said the huge investment *would stimulate* economic growth, raise the competitiveness of Hong Kong, increase land supply and provide more job opportunities.

These aims are even more important now and the government is considering accelerating its programme to help create jobs and stimulate the economy. Construction accounts for about 7 per cent of GDP.

But there are other aims: improving transport and housing the growing popluation.

Hong Kong, famously one of the most densley populated places on earth, has some of the most congested roads in the world with 500,000 vehicles using just 1,500km of road.

"Population is forecast to grow to 8.2m in 10 to 15 years," says Kwong Hon-sang, secretary for works. "Because of that, and because of our expected continued economic growth, we need to keep investing in all sorts of infrastructure and support."

The government's planned 85,000 homes a year will need transport links and community facilities such as schools. All in all, the programme involves 50 per cent as much work again as the airport project did at its peak.

For contracters, this means that Hong Kong is a rare bright spot on an increasingly barren eastern horizon. Siemens, which played a big role in logistics and communications at the new airport, is keeping its sights firmly trained on the territory.

INVESTMENT BANKING • by Louise Lucas

The end of the party

With market volumes plunging institutions have started to shift their focus

Few industries have undergone such radical *change in the past* 12 months as has investment banking.

The sector swept into post-colonial Hong Kong on the crest of a wave: stock markets were riding high and would-be investors spent their lunch hour queueing for share application forms.

The Chinese flags had been fluttering over the territory for barely 48 hours when the Thai baht was floated, setting in motion the spiral of Asian currency devaluations, asset deflation and corporate and bank failures that spelt the end of the party for investment bankers.

Hong Kong, the regional centre, bore the brunt of the fall-out. Lay-offs were made across the investment banking community – with a few notable exceptions among the US fraternity – and Peregrine, the pan-Asian investment bank which came to symbolise the aggressive growth of the business, was consigned to the history books after it extended itself too far in Asian junk bond markets.

"We have gone from a market where funding in all its different forms has been readily available, to a market where capital has become extremely scarce. We are not looking at questions of marginal pricing; in some instances, you are looking at an absolute dearth of it," says Kevin Westley, chief executive of HSBC Investment Bank Asia.

"To the extent investment banks are major intermediaries in channeling capital, there has to be a change in business."

The big seachange is a move is now away from equity-driven business – a mainstay of Hong Kong investment banking through the past decade – and towards advisory areas, such as mergers and acquisitions.

However, if M&A is in vogue, it is hardly the money spinner that equity issuance has been. "With maybe one or two exceptions, most banks, if they are honest, would still say it's not a business that's going to drive the investment banking industry in the region," says Richard Orders, chief executive officer at ABN Amro.

That may be left to broader advisory areas – engineering the restructuring called for by the Asian financial crisis, and bringing in capital through private equity.

Gary Coull, chairman and chief executive of CLSA *Global Emerging Markets*, reckons that companies are more open to bankers' suggestions after a year of seeing their credit ratings slashed, loans cut and an effective removal of the stock market as a means of raising capital.

"The first big change over last year is that companies are more humble: very few would have positioned themselves for the calamities that have occured," he says. "They are starting to realise this is a new world and they have to adapt to it."

One of the realities of that world is a greater reliance on private equity – but with enhanced terms that will attract investors, including board representation and minority protection.

Pools of private equity funds are being raised by financial institutions, such as Prudential Asia Investments, the Asian investment and institutional arm of Prudential Insurance which earlier this month raised US$540.5m, and First eastern Investment, a Hong Kong group which co-raised $200m, targeted at distressed south-east Asian economies.

Mr Coull says these funds, in aggregate valued at as much as $10bn, are still unspent but are seeking opportunities such as management buy-outs and leveraged buy-outs – once prices fall further.

Trade buyers are reinforcing this trend. Companies, such as Coca-Cola of the US and Commerzbank, are taking advantage of lower prices to make strategic acquisitions that beef up their business interests. Hence the recent acquisition by Tesco, the UK supermarket chain, of a share in a similar Thai chain owned by Charoen Pokphand Group.

"That's going to be one of the great clearing mechanisms in Asia," says Mr Coull. In all such deals, he says, the substantial amount of restructuring and advisory work – which ultimately leads to refinancing – will fall to the investment banks.

Businesses that have been trimmed include stockbroking, where thin turnover on the stockmarket has halved commissions, and fund management – a business whose absolute worth has been greatly reduced by the currency devaluations and market falls.

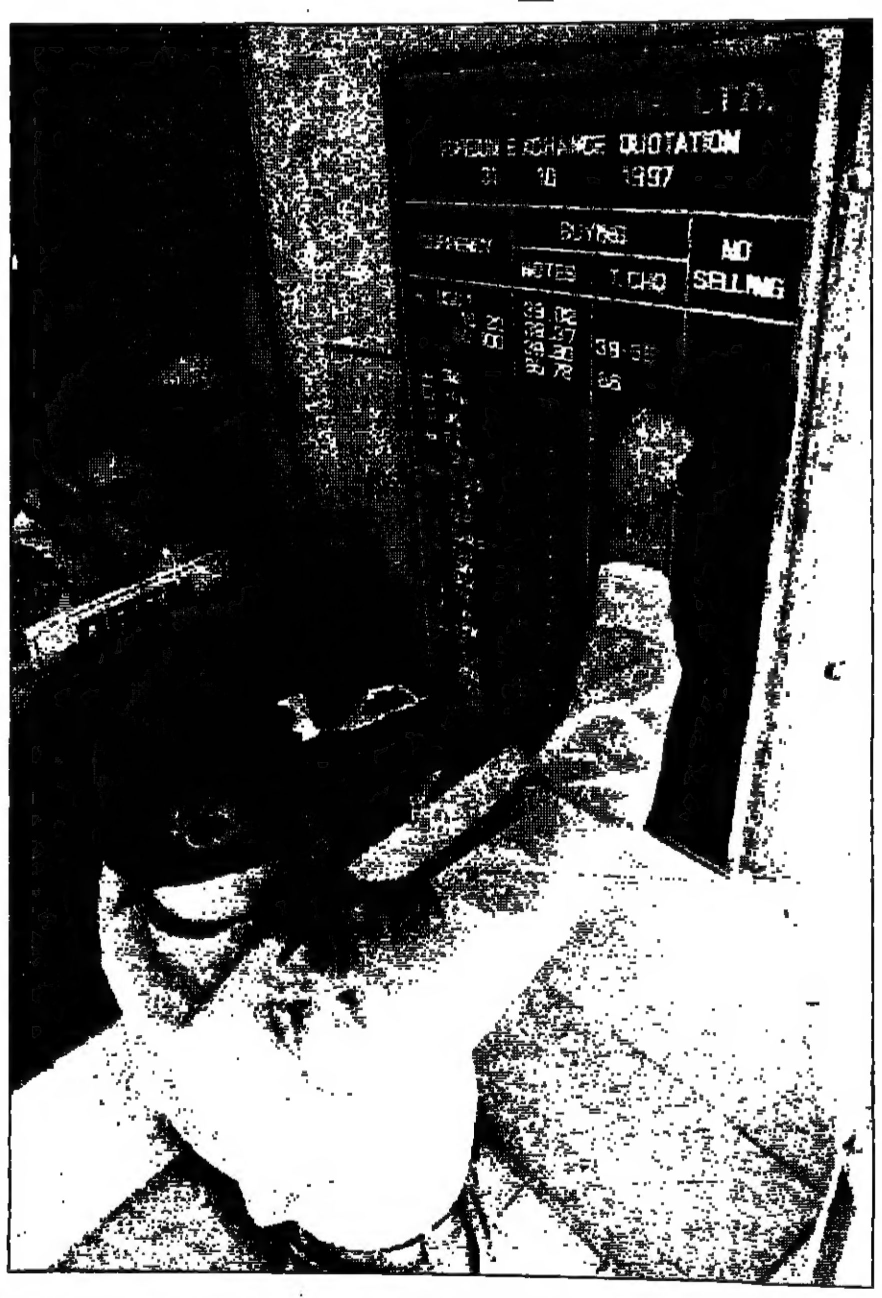
Jardine Fleming, the Asian investment banking joint venture between Robert Fleming of the UK and Hong Kong based conglomerate Jardine Matheson, has cut back regional operations, including those in fund management, while expanding in M&A.

"Obviously this is an ongoing process. Things are changing day by day in Asia. There is no end to the process of looking pretty carefully at what's profitable and what's not," says Henry Strutt, managing director of Jardine Fleming.

A further thinning out of the ranks is not being ruled out: survival of the fittest means the industry will be dominated by those with strong balance sheets and aggressive deal-makers on their payrolls.

Mr Westley says it would be "insane" not to say there is over-capacity in the market.

"Some people in the middle ground are, I think, going to be squeezed, because there simply is not the level of transaction revenues. Bull markets hide a multitude of sins," he adds.



The start of the spiral: the Thai baht's flotation last year sparked Asian currency devaluations, asset deflation and corporate and bank failures Sakchai Lalit/AP

TOURISM • by Louise Lucas

Stark story of vacant rooms

A charm offensive is being mounted in an attempt to boost flagging visitor numbers

Whatever happened during last year's handover of sovereignity, one thing should have been certain – hotels bursting at the seams and a booming tourism industry.

This did not happen. An estimated 7,000 hotel rooms were empty on the most important date in Hong Kong's 150-year colonial history; even more are empty today.

It is not through lack of effort. The government has ploughed funds into the promotional Hong Kong Tourist Association, airlines have cut their prices and desperate hotels have even started soliciting locals for pampering weekends.

All sorts of ambassadors have been marshalled in the drive to galvinise the flagging tourism market. Tung Chee-hwa, chief executive, has touted the territory's glories in Japan; Anson Chan, his deputy, opening a tai-chi exhibition in New York, sang the praises of the "Manhattan with mountains" and on TV screens, Kung Fu actor Jackie Chan's beaming face exhorts his fellow citizens to be good hosts.

Much is riding on their success. The industry is Hong Kong's biggest foreign exchange earner – HK$72.1bn last year (14.7 per cent down on 1996). It contributes 6 per cent of GDP (7.5 per cent in 1996). Directly and indirectly, tourism employs 12 per cent of the workforce.

More than dollars and jobs are at stake. "Tourism is the best barometer for the world's confidence and interest level in Hong Kong," says Amy Chan, executive director of the HKTA says.

Thus when tourism started to decline last summer, the publicity machine went into overdrive. Tina Turner belted out "Simply the Best", on TV ads as restaurants and smiling bellboys flashed on to the screen. Cathay Pacific launched a two-for-the-price-of-one package, including flights and hotels; hoteliers started taking their publicity roadshows into China. But events continued to conspire against Hong Kong.

Ennui set in around the time of the handover; overexposure and the passing of the key date prompted tourists to travel elsewhere. The unravelling Asian financial crisis, which saw currencies devalue by up to 70 per cent, rendered Hong Kong more expensive. Food scares – involving vegetables (pesticides), seafood (cholera), chicken and ducks (bird flu) and beef (E-coli) – further deterred tourists.

Even the south-east Asian forest fires had an impact: long-haul travellers who had included Hong Kong in their itinerary along with Indonesian or Thai beauty spots cancelled the entire trip.

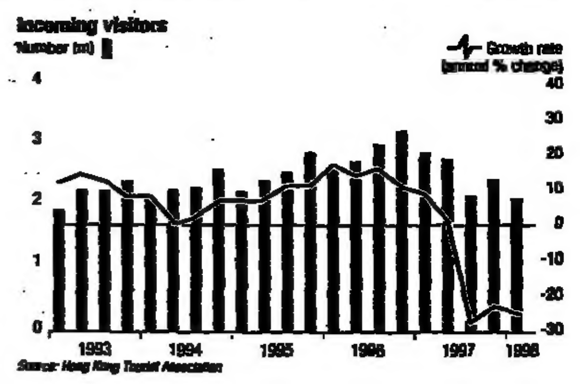
Visitors are down some 25 per cent in the first four months of 1998. Their spending has also fallen. The big-spending Japanese no longer head the league tables of arrivals and their spending dropped by 60 per cent.

The HKTA response has not impressed critics. The latest campaign slogan – "We are Hong Kong, city of life" – won an additional HK$50m from the government but derision from analysts who reckon the overwhelming deterrent is cost. "What most tourists came to Hong Kong for was the mix of Hong Kong and Britain and the low prices. Now it's lost that pricing advantage to a lot of the south-east Asian countries," says Alan Wong, analyst at WI Carr.

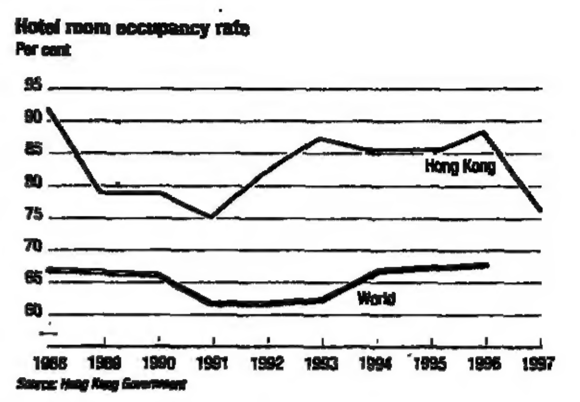
Nor are there the same reasons to part with money: the luxurious goods displayed in Hong Kong's shopping malls are available in most places in the world. One mainland tourist, asked why she was not shopping, said: "The shops aren't as good as at home."

The HKTA's eyes are now turning towards China, with a relaxation of visa restrictions part of efforts to facilitate this. "Hong Kong has always appealed to mainland visitors," says Ms Chan. "Provinces beyond Guangdong know about Hong Kong but don't know too much about it, so there is still a lot of interest. And there is huge potential: 1.3bn people all within a few hours' flying time." Ms Chan also points out that China has been relatively untouched, so far, by the Asian turmoil. Mainlanders last year accounted for 22 per cent of visitors.

But not all 1.3bn will be easy targets. "When I go on holiday, I want to go abroad. Hong Kong is part of China now, so why should I go there?" asks one.



Source: Hong Kong Tourist Association



Source: Hong Kong Government

Plans to tempt her and others include Formula One racing on the runway of Kai Tak airport, which closes next month, and a Broadway show.

Hong Kong, city of sports, culture and courteous taxi drivers may seem far fetched but there is a lot riding on it. And, as Ms Chan notes: "A downturn, in a way, wakes us up. It's a painful lesson but probably a good one."

SOCIETY • by Louise Lucas

A new identity emerges

Consumerism and commerce still dominate but there is a sense of ownership

For Jeffrey Lee, a fifth birthday in the Special Administrative Region of Hong Kong differed little from his fourth under the British flag. Disney tapes played on the video; the table groaned under the weight of an over-iced cake, spring rolls, Coca-Cola, saucers of M&Ms and a bowl of *halo halo*, a Filippina delicacy of fruits and sago.

For the little emperors of wealthier Hong Kongers, little has altered in their cosmopolitan lifestyles. They remain at private schools, where lessons are in English; speak English to their maids and some of their friends; converse with their parents in one or two Chinese dialects and enjoy consumer delights from across the globe.

For others, post-colonial horizons are more limited. Fewer schools teach in English and the economic downturn has forced a number of families to replace English-speaking Fillipina maids with out of work grandparents.

Meantime, the swelling population is creating tensions. Economic slowdown has exacerbated these tensions, while the flow of mainland wives and children across the border is putting strains on scant welfare resources and fragile cross-border marriages.

"People are worried about everything," says Thomas Mulvey of the Hong Kong Family Welfare Society, a non-governmental organisation. "They worry about their own jobs, and whether overseas people – particularly from Thailand, the Philippines and the mainland – will stay on after completing the airport and get other jobs".

As a result, what was hailed by Chinese leaders as a return to the motherland and a reunion of Chinese has been undermined by domestic squabbles and tensions between recent immigrants and their more established neighbours.

Surveys, radio phone-ins and letters to newspapers leave few illusions as to the contempt with which many mainlanders are regarded and yet, at the same time, a number of Hong Kongers profess to a stronger sense of Chinese identity following the handover.

One of the more eloquent espousals of this came from Anson Chan, the chief secretary, during an address to the Asian Society. The real issue of the transition, she said, was less to do with sovereignity than identity.

"The [handover] ceremony, brief as it was, the sight of the flag and the sound of the national anthem touched something deep inside and moved me in a way that is very difficult to describe.

"I think for the first time I began to appreciate the spiritual propriety of Hong Kong's return to the mainland. I am Chinese. I was born in China. My family – like many in Hong Kong – did not leave China willingly. We left because we felt we had to. We have been a country and a people divided travelling different roads and shaped by different events. Now we have an opportunity to be whole."

This new sense of identity has not meant a backlash against all things British. And, says Shiu Sin-por, economist and a stalwart of the selection committee that chose Mr Tung: "With some minor hiccups, by and large our way of life, freedom and liberty are still intact. We had a huge turn-out for the election. June 4 [the anniversary of the Chinese crackdown in 1989 on student demonstrators in Beijing] is still going on and is quite orderly."

Both these events are denied to Chinese across the border. In May, as rainstorms lashed the territory, more than half the registered electorate (or 53 per cent of those able to vote) turned out to choose the incoming legislature.

Two weeks later, with rain still falling, an estimated 2,700 turned up for the annual vigil to remember the pro-democracy protesters crushed by tanks in Tiananmen Square nine years ago. Perhaps this will be the abiding image of Hong Kong: swelling crowds of candle-toting, be-suited people.

Certainly, the old image of the entrepreneurial immigrant is losing its currency. Older hands complain that immigrant hunger is abating; entrepreneurs have been replaced by people who regard it as their birthright to grow rich on property and stock investments.

Mr Tung has attacked this mentality; others say this is in part responsible for the economic downturn. "We've got to get away from this get-rich mentality that's sapping energies," says John Lees, a bankruptcy specialist. "We need to get down to making things again."

Others claim that new government rules have quelled the entrepreneurial spirit. Eric Kee, a Malaysian-Chinese restaurant owner, bemoans the tighter immigration rules which make it harder to employ foreign waiters and waitresses. Local Hong Kong Chinese, he says, are unwilling to take such jobs and new visa requirements for Britons rules out the old stalwarts: backpackers on their travels. "If I wanted to open another restaurant I might have to think twice about it," he says.

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